

Business Planning Guide

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Business planning guide :creating a plan



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BUSINESS PLANNING GUIDE:
Creating a Plan for Success in Your Own Business
Newly Revised and Expanded

A handbook to help you design, write and use a
business plan and a **financing proposal**
tailored to your specific business needs.

Upstart Publishing Company, Inc.

The Small Business Publishing Company
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Business Planning Guide
Personnel Planning Guide
Market Planning Guide
Cash Flow Control Guide
Common Sense Management Techniques
and other publications for small-business owners

“A small business is one where you can bring your
dog to work.”

—David H. "Andy" Bangs, Jr.



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Table of Contents

	Page
Foreword	vi
To the Reader	vii
Introduction	1
Outline of a Business Plan	2
The Cover Sheet	3
The Statement of Purpose	5
The Plan's Table of Contents	6
 Section One: The Business	 9
A. Description of Business	10
B. Product/Service	16
C. The Market	18
D. Location of Business	23
E. Competition	25
F. Management	28
G. Personnel	34
H. Application and Expected Effect of Investment	36
I. Summary	40
 Section Two: Financial Data	 43
A. Sources and Applications of Funding	47
B. Capital Equipment List	48
C. Balance Sheet	50
D. Break-Even Analysis	55
E. Projected Income Statement	59
F. Cash Flow Projection	72
G. Deviation Analysis	82
H. Historical Financial Reports	88
I. Summary	89
 Section Three: The Financing Proposal	 91
 Section Four: Supporting Documents	 97
Appendix One: A Sample Partnership Agreement and Corporate Checklist	103
Appendix Two: Functional Resumes	113
Appendix Three: Bibliography and Resources	117
Appendix Four: Glossary	123
Appendix Five: Worksheets	129
Appendix Six: Order Forms	143
Index	149

Foreword:

The revised and expanded edition of the *Business Planning Guide* is a landmark. What has been described as "an underground bestseller" (*Working Woman*, August, 1987) has finally come into the light of day.

Until now it has been difficult to find the *Guide* unless you were one of the fortunate entrepreneurs whose banker provided it, or you happened to attend a seminar by one of the *Guide's* devotees.

Even so, more than 150,000 businesses have used the *Guide* to plan for future successes. That number tells us something: there are a lot of highly motivated business owners out there who recognize the importance of planning and will seek out the resources they need to make their businesses work.

It also tells us that small business continues to be a major force economically and socially. In these deregulated days of frenzied acquisitions and investment-banker-as-culture-hero, it is reassuring to know that our foundation of independent business is still there, creating jobs, preserving freedoms, creating and maintaining prosperity.

The *Business Planning Guide* is more useful than it's ever been. This latest edition contains:

- *a new product/service section
- *an expanded marketing section
- *updated figures which reflect current trends
- *an index to make it easier to use.

The *Guide* is not only intended for those who are opening a business, but those who are expanding an existing business, buying a going concern, or simply determined to manage their business on a more rational basis.

In short, this is a handbook for those that have braved the odds and opened their own business, and for the more than 400,000 entrepreneurs who take up the challenge every year.

Brad Ketchum, Jr.
Formerly Senior Editor,
Inc. Magazine
(Currently editor of *The Walking Magazine*)

To the Reader:

The *Business Planning Guide* has been developed to help you construct a logically arranged and reasonably complete business plan and financing proposal which will:

- Serve your need for business analysis;
- Help you design a business plan for your business;
- Provide you with a set of financial forecasts based on your rational assumptions about the future and on your hard-won business experience;
- Set budgeting guidelines—including a working capital budget and a break-even analysis for your business;
- Help you determine the amount and kinds of financing most appropriate for your business; and
- Give your financing sources the most useful and persuasive information about your business—information they need to make swift, accurate and helpful decisions.

The suggested outline is flexible and you should tailor it to your own needs. It is based on the critical analysis and evaluation of thousands of business plans and financing proposals, and on a wide range of resources such as Small Business Administration pamphlets, bank guidelines, textbooks, periodicals, and conversations with experienced business owners, proposal writers, and many readers' comments.

If your plan requires additional information—a time/cost study, for example—include it. If you have trouble understanding how to complete your plan, seek assistance.

A business plan and a financing proposal are closely related. In fact, a good business plan that is updated periodically makes the most powerful financing proposal a small business can have. If you follow the guidelines (remembering to adapt them to suit your particular business situation), then you will not only know exactly how much money you need to make your business work, you will also know and understand what kind of financing to seek and who is most likely to provide it.

This knowledge alone helps you establish credibility with the potential sources of your financing. The complete financing proposal, which is a modification of your finished business plan, will establish maximum credibility. By presenting a clearly thought-out, well-documented financing proposal, you show that you know what you want to do, how to do it, and how the loan will be repaid or how the investment will appreciate.

A good business plan that is updated periodically makes the most powerful financing proposal a small business can have.

How To Use This Guide

The *Business Planning Guide* is divided into major sections, some or all of which will be useful to you depending upon your specific needs. The first section is a general discussion of business problems and highlights the main points of the other sections. It is intended to help identify problem areas and will help you decide which of the other sections will be most useful in problem solving. A glossary defining some of the terminology is included at the end of the *Business Planning Guide*.

The *Business Planning Guide* can be used both by people contemplating going into business and those already in business.

The *Business Planning Guide* is not a substitute for other kinds of assistance, but rather points out the need for and strongly encourages the use of competent legal, banking and accounting services as well as other specialized forms of assistance.

If at any point in using the *Business Planning Guide* you need further help, seek it out. There are various groups in most areas which exist to provide free or low-cost assistance to small businesses. Ask your banker about organizations in your area which might be helpful to you.

Each section of the *Business Planning Guide* is divided into three parts:

1. Major points of concern, and why each is important to the business.
2. How to do whatever is required to complete that section.
3. Examples from an actual business plan.

When you have finished the process, you will have a complete, coherent document which serves your needs and the needs of others who may require information from you about your business.

Some Requirements for Using the *Business Planning Guide*

You must do the planning.

This means that you must make the time available. If you are already in business, this may seem impossible. However, while you can hire people to do the work in your business, you cannot hire someone to do the planning. The plan is for your business and must be based on your ideas, experience and assumptions. Others can assist you in the process, but you must do the actual planning.

If you are not in business but are trying to determine whether your business idea makes sense—or are getting ready to get started—following the planning process is the most important thing you can do. It will help you avoid mistakes and save you grief, time and money.

Plan what's going to happen.

Then do it.

An Explanation of the Example Used in This Book

The sample plan that is used throughout the *Business Planning Guide* is based on an actual business plan for a business that was being started when we originally developed the book. Dealing with their real problems helped to ensure that we were staying on the right track. The planning represented here was accurate and effective.

Actual performance turned out to be quite in line with the original projections.

Finestkind Fish Market, Inc. sells fish to both retail and wholesale customers, and is located in southern Maine. Since their original modest beginning, Finestkind has successfully established their original location, developed and sold a second, and is considering further expansion.

While Finestkind conducts a retail, perishable business in the northeast, the principles expressed in their planning are universally applicable.

All businesses, in every part of the country, face the same challenges that Finestkind faced. Whether you manage a hardware store, a job shop, a division of a large company, a professional practice or offer a service, you still must know where you want to go, how you will get there, and what benchmarks are important. You still must work with and through people. You still must use financial controls to manage your business and keep it growing and healthy. Above all, you still must have customers—customers keep you in business.

About Upstart

Upstart Publishing Company is committed to serving the needs of small businesses everywhere. We can provide a wealth of information to those who are planning to start a business, those who are currently in business and those who have an interest in, and serve small businesses.

For more information and a free catalogue, call us toll-free at 1-800-235-8866. See the Appendix for order forms.

**All businesses
face the same
challenges that
Finestkind faced.**

Introduction

Why should you go to the trouble of creating a written business plan? There are three major reasons:

1. The process of putting a business plan together, including the thought you put in before beginning to write it, forces you to take an objective, critical, unemotional look at your business project in its entirety.
2. The finished product—your business plan—is an operating tool which, if properly used, will help you manage your business and work effectively towards its success.
3. The completed business plan communicates your ideas to others and provides the basis for your financing proposal.

The importance of planning cannot be overemphasized. By taking an objective look at your business you can identify areas of weakness and strength, pinpoint needs you might otherwise overlook, spot opportunities early, and begin planning how you can best achieve your business goals. Your business plan also helps you see problems before they grow large and helps you identify their source—thus suggesting ways to solve them. Your business plan will even help you avoid some problems altogether.

This handbook has been designed with these considerations in mind. But you must do the work. A professionally prepared business plan won't do you any good if you don't thoroughly understand it. That level of understanding only comes from being involved from the very start.

Use your plan. Don't put it in the bottom drawer of your desk and forget it. Going into business is rough—over half of all new businesses fail within the first ten years. A major reason for failure is lack of planning. The best way to enhance your chances of success is to plan and follow through on your planning.

Your business plan can help you avoid going into a business venture that is doomed to failure. If your proposed venture is marginal at best, the business plan will show you why and may help you avoid paying the high tuition of learning about business failure. It is far cheaper not to begin an ill-fated business than to learn by experience what a business plan would have taught you at the cost of several hours of concentrated work.

Finally, your business plan provides the information needed by others to evaluate your venture, especially if you will need to seek outside financing. A thorough business plan can quickly become a complete financing proposal which will meet the requirements of most lenders.

The best way to enhance your chances of success is to plan and follow through on your planning.

Outline of a Business Plan

- Cover Sheet: Name of business, names of principals, address and phone number
- Statement of Purpose
- Table of Contents

Section One: The Business

- A. Description of Business
- B. Product/Service
- C. Market
- D. Location of Business
- E. Competition
- F. Management
- G. Personnel
- H. Application and Expected Effect of Loan (if needed)
- I. Summary

Section Two: Financial Data

- A. Sources and Applications of Funding
- B. Capital Equipment List
- C. Balance Sheet
- D. Break-Even Analysis
- E. Income Projections (Profit and Loss Statements)
 - 1. Three-year summary
 - 2. Detail by month for first year
 - 3. Detail by quarter for second and third years
 - 4. Notes of explanation
- F. Cash Flow Projection
 - 1. Detail by month for first year
 - 2. Detail by quarter for second and third years
 - 3. Notes of explanation
- G. Deviation Analysis
- H. Historical Financial Reports for Existing Business
 - 1. Balance sheets for past three years
 - 2. Income statements for past three years
 - 3. Tax returns

Section Three: Supporting Documents

Personal resumes, personal balance sheets, cost of living budget, credit reports, letters of reference, job descriptions, letters of intent, copies of leases, contracts, legal documents, and anything else relevant to the plan.

The following pages elaborate and explain each of the above categories.

The Cover Sheet

The cover sheet should:

- Identify the business and the document;
- Identify the location and telephone numbers of the business or where the principals can be reached;
- Identify the person who wrote the business plan.

The cover sheet should not be elaborate. It should be neat, attractive and short. If the plan is to be used as a financing proposal, use a separate cover sheet for each bank or capital source you submit it to. See the next page for a suggested cover sheet for a financing proposal.

A Sample Cover Sheet

FINESTKIND SEAFOODS, INC.
123 Main Street
Anytown, ME 04112
207/432-1111

Business Proposal by Mike Gosling and Mike Swan

**Financing Proposal
for
Finestkind Seafoods, Inc.**

To be Submitted to
The Great Bay Bank and Trust Co.

Mike Gosling
Mike Swan
Finestkind Seafoods, Inc.
123 Main Street
Anytown, ME 04112
207/432-1111
October 31, 19—

Statement of Purpose

The first page of your plan should state your objectives as simply as possible. If the plan is for your sole use, the statement should be a brief description of how you intend to use the plan once it has been developed. For example: “This plan will be an operating and policy guide for Finestkind Seafood, Inc.”

If the plan is also to be used as a financing proposal, the statement of purpose becomes more complex. It should include responses to the following questions:

- 1. Who is asking for money?*
- 2. What is the business structure (for example: sole proprietorship, partnership, corporation, Sub-Chapter S corporation)?*
- 3. How much money is needed?*
- 4. What is the money needed for?*
- 5. How will the funds benefit the business?*
- 6. Why does this loan or investment make business sense?*
- 7. How will the funds be repaid?*

The deal you propose—the loan or investment, its use and expected effects on the business, and how you will repay it—will be supported by the rest of your plan. If you are not seeking a loan, the plan should still support and justify the use of your own money (or the money of partners, friends or family).

Keep the statement short and businesslike. It will usually be no longer than half a page, but can be longer if necessary. Use your own judgment.

A Sample Statement of Purpose

Finestkind Seafoods, Inc. seeks loans totaling \$120,000 to: purchase equipment and inventory; purchase property and buildings at 123 Main Street, Anytown, ME; perform necessary renovations and improvements; and maintain sufficient cash reserves to provide adequate working capital to successfully expand an existing wholesale/retail seafood market. This sum, together with an additional \$30,000 equity investment by the principals, will finance transition through the expansion phase so that our business can operate at a higher level of profitability.

Notice that this sample statement of purpose contains responses to the checklist items. The last statement is intended to assure the bank that the deal is viable.

The statement of purpose cannot be completed until you have calculated your capital needs. It can be written, but the exact amount needed won't be known until the projections in Section Two: Financial Data have been worked through.

Table of Contents

The Table of Contents itself can serve as a guide to writing and organizing your business plan.

The Table of Contents should follow your Statement of Purpose, which is expanded and supported in the remainder of the business plan.

There are three main sections of your plan:

- The Business;
- Financial Data; and
- Supporting Documents

These sections may be broken down further if necessary. Since a business plan, even for a modest deal, can run to 20 or more pages, you want to help the reader find his or her way to sections or subsections of particular interest. The Statement of Purpose states what your deal is. The Table of Contents makes it easy to find supporting material.

A Sample Table of Contents

Section One: The Business	Page
A. Description of Business	1
B. Product/Service	2
C. Marketing Information	3
D. Location of Business	5
E. Competition	6
F. Management	7
G. Personnel	9
H. Application and Expected Effect of Loan.....	11
I. Summary	12
Section Two: Financial Data	
A. Sources and Applications of Funding	14
B. Capital Equipment List	15
C. Balance Sheet	16
D. Break-Even Analysis.....	17
E. Income Projections:	
1. Three-Year Summary	18
2. Detail by Month, First Year	20
3. Detail by Quarter, Second and Third Years	22
4. Notes of Explanation	24
F. Cash Flow Projections	
1. Detail by Month, First Year	26
2. Detail by Quarter, Second and Third Years	28
3. Notes of Explanation	30
Section Three: Supporting Documents	32

A format of this kind makes it easy to find the section of most interest to you at any given time. You will have to fill in the actual page numbers as you go along, but the Table of Contents itself can serve as a guide to writing and organizing your business plan.

A Brief Note on Financing

Most of the cash required to start a business is provided by the business principals themselves. However, you may need additional funds to launch your business or provide for its growth once it gets started.

Outside funds come in two forms: equity or debt.

Equity represents selling a portion of the business. The amount you may have to sell to acquire the needed funds reflects the amount of risk that the investor perceives. If your venture seems very risky, you may have to sell a substantial share. If it is not seen as very risky, you won't have to give up as much ownership. Hence it is greatly to your advantage to make the perceived risk as low as possible—and a business plan can do this.

Debt is a loan that the lender expects to have repaid sometime in the future. Usually the lender wants to receive a return for the use of his or her funds in the form of interest. Your plan must take into account the need to repay these funds with interest.

If you use an outside equity investor, you don't have to repay the funds, but you give up a share of ownership and will have to share decision-making and profits. If the business grows to the point where you wish to sell out, the real cost of an equity investor can be far greater than interest on a loan.

If you use debt, you may find yourself subject to loan agreements that effectively compel you to share decision-making with your creditors. For example, an agreement may limit the amount of debt you can incur relative to the net worth of the business, which can force you to find new equity money in order to grow.

You may find that more advice on these kinds of concerns will be very helpful. Your banker or accountant can provide this advice (and in any case you should be in close communication with both your banker and your accountant as you plan your business).

A brief discussion of different types and sources of financing is included at the end of this book—see page 94.

It is greatly to your advantage to make the perceived risk as low as possible—and a business plan can do this.

Section One: The Business

This is the most important and most difficult part of your business plan. The objective of this section is to make a clear statement of:

- 1. What the business is (or will be);*
- 2. What products and/or services you plan to offer;*
- 3. What markets you intend to service, the size of those markets and your expected share;*
- 4. How you can service those markets better than your competition;*
- 5. Why you have chosen your particular location;*
- 6. What management and other personnel are available and required for the operation; and*
- 7. Why (if appropriate) debt money or someone's equity investment will make your business more profitable.*

The seven considerations are crucial. They will form the written policy of your business, rules you shouldn't deviate from without compelling reasons. Policy establishes direction and lends stability to your business. Direction and stability are as important to a business as to a tightrope walker—so give them a great deal of thought and planning.

In describing your business idea, aim for clarity and simplicity. A rule of thumb: If you can't describe your idea clearly and simply, you haven't thought it through.

Remember that the technical support for your business idea will be found primarily in the Financial Data and the Supporting Documents sections. In the The Business section, refer to the supporting information as needed. Too much detail gets in the way of explaining your idea.

**A rule of thumb:
If you can't
describe your
idea clearly and
simply, you
haven't thought
it through.**

Your entire planning effort is based on your perception of what business you are in.

A. Description of Business

The objective of this section is to explain:

- What your business is;
- How you are going to run it; and
- Why you think your business will succeed.

Deciding what your business is—and what it will be in five years—is the most important single decision you have to make.

Any business will be involved in more than one activity: If so, your judgment of what the central activity is (or what the central activities are) is crucial. Your entire planning effort is based on your perception of what business you are in. If you make a serious error at this point, your chances of success will be sharply diminished. So be sure to think this decision through.

The Description of Business section answers these seven basic questions:

- 1. What business are you in?* Is your business primarily merchandising, manufacturing, or service? What are your products and/or services? Who are your customers?
- 2. What is the status of the business:* A startup? An expansion of a going concern? A takeover of an existing business? A division of a larger business?
- 3. What's the business' form:* sole proprietorship, partnership, corporation? (Your attorney's advice is essential if you are starting up a business. Use the sample partnership agreement and corporate checklist in Appendix A as a guideline. Since the legal and tax implications are so complex, you need your attorney's and accountant's advice.)
- 4. Why is your business going to be profitable (or continue to grow)?*
- 5. When will (did) your business open?*
- 6. What hours of the day and days of the week will you be (are you) in operation?*
- 7. Is your business seasonal?* If it is or if the hours will be adjusted seasonally, make sure the seasonality is shown in your replies to 5 and 6.

The first question is the toughest to answer concisely, since it is the linchpin of your plan and it involves the questions mentioned above. It certainly calls for more detail than a simple "Finestkind Seafood, Inc. merchandises seafoods to local wholesale and retail markets" kind of statement. (See Page 14 for a more detailed example.)

Knowing exactly what your business does and how it operates enables you to effectively plan for profits. This means you must be able to clearly identify the goals of your business at the beginning of your planning. Once the goals are

clear, then you can start figuring out ways to make a profit. As the business progresses, the question of how to make profits must be continuously asked and answered. (Making profits is what business is about. Even non-profit organizations must have revenues that exceed expenses to survive.)

Attention to profit planning will help you identify what is special about your business and why it won't be one of the 50% or more that disappear before their second anniversary.

You will not yet have a complete answer to Question 4 since it will be partially answered in the financial projections in Section Two: Financial Data. Keep in mind that the answers will come out as your business plan progresses.

Questions 5, 6 and 7 are particularly important for merchandising and service businesses. These are marketing questions which will be addressed later in the plan.

Since startups and takeovers face different kinds of problems, they are treated separately on the following pages. The following checklists supplement Questions 1 through 7.

For a New Business

Your Description of Business section should be based on responses to the following questions (as well as the basic seven). These questions will come up again and again—and as your business grows, your answers will change.

1. Why will you succeed in this business?

2. What is your experience in this business? Lack of experience is one of the leading causes of business failure. But fortunately, it's a risk you can avoid: Before you launch your own business, make sure you've gained experience by working for someone else. Apply the business skills you learned in college at someone else's expense—not your own.

Both of Finestkind's owners had the necessary experience before they opened their store. In the fish business, for example, buying is critical and a function of how well you get along with fishermen. You also need to know wholesalers, how to transport fish to them, and how to fillet your fish for your retail customers. The list is endless, but the point is that you don't learn these skills overnight.

3. Have you spoken with other people in this kind of business? What did you learn from them?

4. What will be special about your business? Business is competitive—and standing out from the competition is increasingly important. Many business owners fail to take advantage of possible competitors' insights and experience.

Take advantage of possible competitors' insights and experience.

They are your best single source of information and will often give you valuable advice for nothing more than a chance to show their expertise. Talking with them (and observing their business practices) will also help you define what the special advantages of your own business will be.

5. Have you spoken with prospective trade suppliers to find out what managerial and/or technical help they will provide?

6. Have you asked about trade credit? Trade credit is a source of funds. Terms such as "2/10, net 30" allow you to use the supplier's money for the 30 days—it's like a non-interest bearing loan for that period. However, this also means that you forego the cash discount allowed for payment within 10 days. Taking discounts can represent a substantial savings on the cost of the product: By paying within 10 days, you save 2% of net. This cash discount represents an annualized rate of 36%. (Saving 2% by paying 20 days sooner is the same as earning 2% for a 20 day period—and there are 18 such periods each year). If you can borrow funds somewhere else for less interest, you should take advantage of the savings.

Trade credit is often not available until a business has been in operation long enough to establish a reputation for paying on time.

Many suppliers offer free services as an inducement to buy their product. For instance, store fixture suppliers provide free layout advice; utility companies give hints on how effective use of lighting can create more sales.

7. If you will be doing any contract work, what are the terms? Reference any firm contract or letter of intent, and include it as a supporting document.

This is especially important for anyone contemplating contract work: Find out how and when you will be paid. Get a feel from other contractors about their experiences. A slow-paying customer can put you out of business if you aren't prepared. If slow payment is a fact of life for your business, plan for it.

8. How will you offset the slow payment of your customers?

For a Takeover

Your Description of Business should contain a brief history of the business you plan to take over and reflect answers to the following questions.

Make sure you can answer these thoroughly: Your banker and other investors will want detailed knowledge. If you don't have these answers, chances are you won't get the financing. Protect yourself.

1. When and by whom was the business founded?

2. Why is the owner selling it?

3. How did you arrive at a purchase price for the business? Businesses which are strong and growing are rarely offered for sale and most sellers will give (not necessarily deliberately) misleading reasons for selling their business.

Determine exactly what you are buying.

Protect yourself. Ask your banker to check out the business. This is a normal bankerly activity, and bankers can get information you may not have access to. If your lawyer or accountant has had a lot of experience buying and selling businesses, get their advice. (They will be involved anyway: Buying a business is a major financial commitment, and you will want all the help you can get.)

A strong case can be made that buying a going business with a positive cash flow is a lot less risky than starting a business from scratch. You might want to involve a professional business broker to help you find the right business, or provide you with their updated listings of businesses you might be interested in buying.

Pricing a business—especially a small or closely-held company that is not publicly traded—is a delicate and demanding process. It calls for both expertise and ethics. Paying for a professional appraisal may turn out to be an excellent investment as it not only establishes a fair price for the business but also provides justification for the price should outside financing be needed.

Include a copy of the appraisal as a document supporting the price. The price should reflect the value of the assets of the business, the rate of expected return on your investment (including new investment in the business during the first few years), and some “going concern” or goodwill figure.

Since you will be repaying the purchase price out of profits, make sure that you get what you pay for. Be careful—and seek professional help.

4. What is the trend of sales?

5. If the business is going downhill, why? How can you turn it around?

Questions 4 and 5 should be supported by income statements and tax returns. Remember, if a business is sliding downhill, there may be reasons which aren’t immediately apparent. Check out the owner’s reasons for selling. Ask his bankers. It is difficult to restore a tarnished reputation, and it can’t be done overnight.

6. How will your management make the business more profitable? If you can turn around a faltering business, the rewards can be great. Just make sure that you have the skills, capital, and patience turnarounds require before you commit yourself.

Some additional thoughts to keep in mind as you check out the business are:

- Evaluating and determining the age of the inventory
- Checking with trade creditors
- Determining the age of the receivables
- Determining the age and condition of the operating machinery and physical plant
- Seeing if the business owes money (If it does, will you inherit the liabilities?)
- Seeing if there any legal problems pending.

You are planning to put your money on the line. Don't be afraid to ask for advice before you commit yourself to any deal. A good attorney and accountant are essential at this point to make sure the transaction benefits both sides—especially if seller financing will be involved, as is usually the case.

A Sample Description of Business

Finestkind Seafoods, Inc. is a fish market specializing in selling extremely fresh (no more than one day from the boat) seafood to local retail and wholesale customers. At present, about 60% of sales are retail. Finestkind plans to concentrate more heavily on the wholesale trade (restaurants and grocery chains) in the future. Although margins are lower in the wholesale trade, profits are higher due to lower personnel costs and faster inventory turnover.

Finestkind began business in September 19—. The store is open seven days a week from 10:00 a.m. to 8:30 p.m. (6:00 p.m. in the winter) for retail business and from 6:30 a.m. to 8:30 p.m. year-round for wholesale.

The retail demand is seasonal and fluctuates according to weather (the store is located on a tourist route). The wholesale demand is constant and increasing. We feel that the latter can be improved by more direct selling efforts. Our customers agree (see letters from Nightlife Clambake and Grandiose Superettes in the Appendix). The quality of our seafood is exceptional, and since Mr. Swan is a former fisherman with many personal friends in the fishing industry, we do not anticipate trouble maintaining good relations with our suppliers. We have made a policy of paying premium prices in cash at dockside for the best, freshest seafood.

Note that this description answers most of the questions posed on the various checklists on Pages 10 through 13. (But remember that the checklists are meant to provide a guideline, not a straitjacket.)

It should be apparent that Finestkind has a well-defined marketing strategy. They will be selling premium quality seafood to two target markets: wholesale (restaurants, markets, institutions) and retail (mainly tourists at the 123 Main Street store). Long-term, they will concentrate more heavily on the wholesale market since they feel their chances of penetrating that market are better than their chances of increasing retail trade.

This is a careful strategic move. They think they see a way to develop a competitive advantage in a market niche, based on their experience and analysis of the competition. Shifting marketing emphasis has problems, but doing so deliberately and thoughtfully makes sense. The shift towards wholesale would be most hazardous if done without a clear idea of where the opportunities are, where the profits are greatest, and what resources are needed to take advantage of the opportunities in their marketplace.

Finestkind should be prepared to explain to a loan officer what “exceptional quality” means and how they plan to be competitive if they continue to pay premium prices for their seafood. These are the areas in which Finestkind stands out from their competitors, but they may prove to be economically self-defeating.

Give your markets reasons to buy your products.

B. Product/Service

Most businesses are built around products and/or services that already are available. A fish market such as Finestkind has a very simply described product line (seafood); the service element involves how they process the product and satisfy their customers.

If your products or services are unique, state-of-the-art or otherwise noteworthy, take advantage of it. Such differentiation is valuable, tends to be fleeting, and attracts imitators.

The products and/or services offered by most businesses are generic. While you may believe your products and services are special, that perception is not necessarily shared by your market, and no amount of advertising is apt to change their perception. A hardware store sells hardware; a lawyer sells legal services; seafood markets sell fish.

Differentiating your products and services from those of the competition starts with thorough product or service knowledge. One of the most important aspects of business management is giving your markets reasons to buy your products—and one of the best reasons is that the benefits you offer meet the market's desires. People tend to buy what they want, not what you think you offer.

Even if you mention your products and services only in passing in your business plan, you should go through the exercises below. They will help you understand better how to position your business—and can make a difference when your banker asks what's so special about your venture.

The key question is not: "What are your products or services?" but rather:

1. What are you selling? You may think you're selling hardware in your hardware store, that is, hammers and saws and nails and buckets of paint. Your customers, on the other hand, think they're buying (along with the hammers, saws, nails, paint) savings, improved homes, fulfillment of a do-it-yourself ethic—and they choose your hardware store because it's convenient, clean, staffed with polite clerks, has good parking, and so on.

The same applies to a lawyer: People seldom buy legal advice. They want to buy solutions to legal problems, a sympathetic ear, a champion of their cause, redress of a problem, and so on.

Finestkind sells good taste, convenience (delivery and filleting fish to order, for example, are conveniences), accessibility, adventure (they were the first to sell Mako, monkfish, and mussels in their market area) along with the fresh seafood they thought they were selling.

- *2. What are the benefits (as opposed to the features) of what you are selling?*

3. *How do your products and/or services differ from competitive products and/or services?* Benefits are what customers buy. Features may make those benefits possible—the freshness of Finestkind’s seafoods are features; the taste and the implications of fresh, natural, healthy foods are among the benefits customers (including wholesale) perceive in their product line. Other stores offer other benefits—more convenient locations, proven reputation (habit is powerful), long-term vendor relationships with wholesale markets. Finestkind can’t compete on every front; they hope to dominate one niche of the seafood business in a local market by a strategy of product differentiation.

4. *If your product is new or state-of-the-art or otherwise unique, what makes it different? Desirable?* Educating a market to a new product is fraught with danger and unexpectedly high costs.

5. *If your product or service line is not special, why would people buy from you?* Convenience? A wide product line? Special knowledge of how to use the products you sell?

Business success ultimately comes from satisfying market needs. In only a very few businesses does that edge come from product superiority or high tech. Most business—whether retail, wholesale, or service—is pretty mundane.

Don’t rely on your “superior” product or service. Do rely on satisfying your markets’ needs. The first step towards this goal is to understand all about your product or service: What are their features? What benefits can they provide the customer? How can you use your product or service knowledge to differentiate your business from competing businesses?

The second, equally important step comes in the next section of the business plan.

Your first challenge is: Define your target market.

C. The Market

Focus your efforts.

In order to generate a consistent and increasing sales flow, you must be thoroughly knowledgeable about your market—the people who will buy your service, product or merchandise.

You have some control over who your customers will be: You can choose to enter or to leave certain markets. However, do so very carefully. Entering or abandoning markets is a major strategic decision, and calls for a lot of careful thought.

You need customers who will buy your goods and services, at a price that yields you a profit, in sufficient numbers and over a sufficient period to keep your business healthy and growing.

Your first challenge is: Define your target market.

The term “target market” is especially useful because that market is the target for all of your efforts. While you may have more than one market you wish to target (Finestkind has three), you want to start with the best one on the theory that once you have done as well as you can with the best, you can focus on the next best, and then the next (and so on). Focus your efforts; use a rifle, not a shotgun.

Defining your target market is done in a logical fashion by considering: Who needs your goods and services?

Start with your current customers, or those you feel will most probably be your customers when your business starts up.

The questions you must be able to answer include:

- 1. What are your markets?*
- 2. Which ones are buying from you now?*
- 3. What products are they buying?*
- 4. Who are the people who are buying from you?*

These are baseline questions. It's easy enough to broadly characterize markets you now serve. Finestkind has at least three: the wholesale market (restaurants, groceries, other institutional accounts) and two retail markets (local and tourist). These constitute their current markets, and their purchasing habits and other characteristics can be fairly readily ascertained by observation and some sampling. Determining a market's characteristics are favorite tasks for business school classes—and can cost you as little as the out-of-pocket costs for the students and their professor.

Question 4 deserves some more attention. Businesses and institutions don't buy products. People make decisions to buy products—even if their title is “Purchasing Agent” or “Restaurant Owner.” The demographics can be fascinating, and tell you as much about how you position your business and practise selling as about your markets.

The simplest demographics are more effective than none (a fact that can vault you ahead of the great majority of business owners and managers, most of whom rely on habit and inertia rather than analysis of their markets).

You want to be able to identify your best (most profitable) customers and understand them well enough to be able to find more people like them. If you are primarily marketing to businesses, this process has a few added dimensions: First identify the kind of company you are successfully selling to, then find the people within those businesses to deal with, and find out more about these individuals. You can always broaden your market effectiveness more easily if you build on proven strengths.

5. How would you characterize your markets? Some market segmentation criteria that might help are listed below. Apply them to your best customers and prospects, asking how each one can be most thoroughly characterized.

For individuals:

- Age
- Gender
- Race and ethnic group
- Hobbies
- Lifestyle
- Education
- Social class
- Occupation
- Income level
- Family life cycle

For businesses:

- Broadly-defined: What kind of business, manufacturing/service/retail/wholesale
- Location
- Structure
- Sales level
- Special requirements
- Distribution pattern
- Number of employees
- SIC (Standard Industrial Classification)

Segmenting and categorizing your customers makes sense for even the smallest business. Once you know who your good customers are, ask again and again:

6. Why do these people buy from my company? •

Identify your best (most profitable) customers and understand them well enough to be able to find more people like them.

Good marketing strategy is planned, and good plans are based on good information.

7. Why do they buy from us and not from the competition?

8. What are they buying from us? On what cycle?

9. How can we find more people (businesses/buyers) like these?

Question 9 is a key to your future strategies. It is always easier to sell to current customers than to non-customers—but you have to constantly look for more customers to replace those you lose through normal attrition, to say nothing of the new customers you need to grow more profitable.

10. What is the size of your market(s)?

11. What percent of the market do (will you) have?

12. What is the market's growth potential?

13. As the market grows, will your share (percentage) increase or decrease?

14. Is the market competitive or not? If not, why not?

You have to measure the size of your target markets. Having too few customers will put you out of business. Although your business will receive cash from four sources—sales, loan proceeds, sale of fixed assets, and proceeds of new investment (debt or equity)—it will ultimately rely on operating profits generated through sales as the main source of money. If there aren't enough customers, there won't be enough sales.

You can obtain information on the size of your markets from Chambers of Commerce, trade publications, marketing consultants, other business persons, schools, and colleges. (These studies are another favorite for practical, hands-on experience in business schools. Ask, and the numbers shall be given.) An excellent source of information is the Federal Census Report which includes your area; you will find one in the nearest library.

It is best to get help in assessing your prospective markets from such sources rather than trying to guess by watching passing traffic and hoping for the best. Good marketing strategy is planned, and good plans are based on good information.

Once you have a feeling for the size and nature of your markets, you can (finally!) raise the most important marketing questions of all:

15. How will you attract and keep these markets?

16. How can you expand your markets?

Questions 15 and 16 bring in such questions as how and where to advertise, the suitability of your location, the attractiveness and accessibility of your store and the fit between your business and your chosen markets.

A Brief Note on Pricing

Pricing is another major marketing concern, since price, quality, service and profitability are tied together in a complex web. While there are no mechanical formulas for cranking out price decisions, there are a few guidelines you can follow that will help provide a price range for you to safely work within.

1. Price = Product + Service + Image + Expenses + Profit. The prices you set on your goods and services should reflect not only the product or service itself but also an intangible image factor. In an ideal situation, you would know how your customers and prospects perceive the value of whatever you sell and price accordingly. You also have to cover costs and profits.

2. Determine your pricing objectives. Identify your objectives. Are you trying to buy market share with low prices? Maximize profits? Remain competitive? Build up a new product line? Your general marketing objectives apply here. Pricing is inherently strategic, so you must be clear on your objectives.

3. Establish price ranges. This is defensive. Make sure that you charge enough to cover your costs. A break-even analysis (see Section Two: Financial Data) will help you establish the low end of your price range. You have to cover your fixed costs with enough margin to survive—and this can be calculated in terms of both unit sales and dollars, thus helping you establish minimum prices.

At the high end, build your desired profit levels into the break-even equation and compare the prices you arrive at (on an item-by-item or product-line basis) to your sense of what the market will bear. Your customers won't pay more for your goods and services than they have to—and their perception of the value of your goods and services makes a very effective upper price limit.

4. Choose a flexible pricing approach. The four basic pricing approaches are full cost pricing (which reflects your costs), flexible markups, gross margin pricing (which takes operating costs and marketing factors into account) and suggested or going rate. The last of these is the least desirable; it involves you in an endless game of follow-the-leader. All of these approaches have their merits, however, and it makes sense for you to take advantage of all of them.

For a fuller description of these pricing approaches, check with your accountant. A review of your pricing strategy is a valuable addition to your planning, and should be part of your periodic financial and accounting reviews.

A Brief Note on Credit

Will you offer credit to your customers? If you give credit to your customers, you are making them a loan. Can you afford to do this? Do you have to extend credit? Can you evaluate credit risks? Can you collect? Can you afford to write off bad debts?

Customer credit can result in an unexpected cash drain on your business.

Pricing is inherently strategic, so you must be clear on your objectives.

Pricing reflects a total package of product and service, and expenses and profit goals.

If you must offer credit (because it's customary in your line of business, because you find that sales and profit increases will outweigh the costs of offering credit, or because a competitive market situation demands that you offer credit), make sure that your financial plans include the effects of offering credit.

Offering credit costs you money. It can have negative impact on your cash flow, especially in the early stages. You may have to borrow money for working capital to carry customer credit. You may strangle your business by tying up funds you could have used more profitably elsewhere.

Check with your banker. You may find that judicious use of bank credit cards will be less expensive and safer than setting up your own credit department. You may find that there are other methods that don't deny you the benefits of offering credit but let you pass on the costs to a bank or other financial institution that knows how to deal with credit risks.

A Sample Description of the Market

Finestkind will continue to provide premium quality seafoods to both wholesale and retail customers. We plan to switch the balance from 60% retail/40% wholesale to 40% retail/60% wholesale as we grow. Retail business should grow over the next few years, but the most rapid growth will be in wholesale accounts.

Our goal is to provide the freshest seafood at competitive prices to customers within 25 miles of Anytown. This market has a total population of over 100,000 people and a potential of over 300 commercial wholesale accounts (see excerpt from Census Report in the appendix).

Customers will be attracted by:

- Direct approach to restaurants, groceries and other wholesale prospects;
- A local radio and newspaper advertising campaign;
- Word-of-mouth advertising from our current customer base; and
- Our location on a heavily-traveled tourist route.

Note that Finestkind has included both policy and strategies consistent with the policy stated in the above sample. Finestkind's marketing strategy is limited to a specific area, the area they feel they can service without incurring prohibitive travel and spoilage costs. Their advertising will be on local radio stations (there are four 1,000-KW stations which cover the area) and in local papers. Advertising costs money, and they plan to spend their advertising budget wisely.

The key to Finestkind's strategy is that it is pegged to competitive prices. For most small businesses this is the safest pricing strategy: What do the competitors charge? Can you make a profit at that price? Can you justify a different price (lower internal costs, for example, or higher quality or better service)?

Keep in mind that pricing reflects a total package of product and service, and expenses and profit goals.

There is no point in pricing yourself out of the market, nor is there anything to be gained from a price which puts your business in the red.

D. Location of Business

Proper site location can help your business make money. If you are going into business, first try to locate the ideal site, then figure out how close you can come to it. Remember:

Rent = The Costs of Space + Advertising.

Information about specific areas is available from Chambers of Commerce, industrial development commissions (they may also have information about tax breaks and financing incentives for businesses which will employ substantial numbers of people in towns under their commission), trade sources such as magazines and associations, planning commissions, bankers, and lawyers. Try these first.

Then ask commercial real estate brokers, once you have a feel for how much space you need, and about location cost requirements.

Do not go into business in a given spot simply because the price is low. Rent and purchase prices are fixed by market forces, and a low price usually reflects low desirability. Although for some operations this doesn't matter, for others—merchandising and restaurant businesses in particular—the three most important success factors are said to be location, location and location.

Different businesses have different needs. Manufacturers and wholesalers value low space costs and good access to transit routes over exposure to and accessibility by the public. For retail operations, access and exposure are very important. Traffic studies may be available for the area you are interested in and can give you information to make the right location decision for your business.

Your banker may be your most helpful reference. Some locations seem to be jinxed, and bankers are apt to know why and will tell you.

In this section of your business plan, you should answer the following questions:

1. *What is your business address?*
2. *What are the physical features of your building?*
3. *Do you lease or own your space?*
4. *What renovations are needed, and how much will they cost?* Get written quotes from more than one contractor. Include these as supporting documents.
5. *Does zoning permit your kind of business in the neighborhood?*
6. *What other businesses (kinds of businesses) are in the area?* For example, car dealers tend to cluster. So do art businesses, restaurants (especially fast food restaurants), jewelry stores and financial businesses.

Do not go into business in a given spot simply because the price is low.

7. *Why did you pick this site over others?*

8. *Why is this the right location for your business?*

9. *How will the choice of location affect your operating costs?* A bad site can put you out of business, while a good site will increase your profits. Choose wisely.

Once you get started, or if you are already in a good location, keep a constant eye on changes in your location—new roads get built, populations change, people move, zoning ordinances change, and your business needs may change too. Prepare to anticipate these changes. Compare census reports over a period of time to find long-term shifts. Keep in touch with real estate people who have to know what's happening.

A Sample Description of the Location

Finestkind is currently leasing a one-story, wooden frame building with cement floor (2,000 square feet) at 123 Main Street, Anytown, ME for \$550/month with an option (in writing) to buy for \$105,000. The area is zoned for commercial use. Main Street is part of U.S. Route 1, a heavily traveled tourist route with most nearby businesses catering to the tourist trade. Finestkind has performed major leasehold improvements, such as installing rough-sawn pine board walls and a walk-in freezer. The building is divided into (1) a sales/counter area (1,200 square feet); (2) a cutting area (100 square feet); (3) a multi-purpose area, including toilet with separate entry, storage space, and room for some expansion of the freezer and processing areas (700 square feet in all). See the diagram in the Appendix.

This section needn't be too involved. Except for serving as a reminder of things to look out for, once the location has been chosen a brief statement is all that's necessary when you update your business plan. Suggested alterations may not be made for reasons which you forget between periods of updating your plan, so it may be wise to make a note of them as they come up.

E. The Competition

If you have decided on your target markets and found that they are large enough to be profitable and contain reasonable expansion possibilities, the next step is to check out your competition, both direct (those operations similar to yours) and indirect.

There are three times you should be concerned about the competition.

1. When you are planning to start up or buy a business, or planning to enter a market that's new (to you). You'd best check up before sitting down with your investors and banker—because the first question they'll probably ask is, "What competition do you face?" Business is inherently competitive, and since there is very little that's new in business, most worthwhile markets are already being worked by someone. In fact, if you think you've found a brand new untapped market, think carefully before entering it. If there are no competitors, it's probably because the market can't support a business.

2. When a new competitor arrives on the scene. When you study the competition under these circumstances, you probably won't have the flexibility you had earlier. New competition can come from direct competitors (old rivals as well as new ones). But it can also come from outside your line of business. (A classic example would be the assault television made on the movie business for people's free time.)

3. All the time. This ongoing monitoring of the competition is an inexpensive form of preventive maintenance, and is your best strategy for protecting your customer base. While forestalling competition and insuring your survival is very important, being in a position to recognize and take advantage of new opportunities is even more important. Constant monitoring of the market will allow you to keep ahead of your competition, whether new or old.

To analyze your competition, consider the following questions:

- 1. Who are your five nearest competitors?*
- 2. How is their business—steady, increasing or decreasing?*
- 3. How are their operations similar and dissimilar to yours?*
- 4. What have you learned from watching their operation?*
- 5. How will your operation be better than theirs?*

The objective of this section is to enable you to pick up the good competitive practices and avoid the errors of your competitors. A common error is opening a business in a market that is already more than adequately serviced. Carefully viewing the competition can lead you to alter your basic strategy or to change existing operations to compete more effectively. This has to be an ongoing practice since markets are continually changing and success attracts competitors.

Being in a position to recognize and take advantage of new opportunities is most important.

Business is too competitive to allow your attention to lapse.

How should you compete? Knowledgeably. There are many alternatives to price competition, for example, that small business owners could profitably use. These are based on knowing how your business compares to competing businesses.

You won't be able to fight on every front. Choose the areas where you can gain a competitive advantage, one based on your business' strengths (people, product and service are the three most important). Try to match your strengths against your competitors' weaknesses—which of course means you have to know what these matchups are.

For a quick comparison, fill in the form on the following page.

Customer Seeks:	Competition Offers:	You offer:
Quality		
Exclusivity		
Lower prices		
Product line		
Product service		
Reliability		
Delivery		
Location		
Information		
Availability		
Credit cards		
Credit line		
Warranty		
Customer advice		
Accessories		
Knowledgeability		
Polite help		

The number of competitors (five) mentioned in Question 1 is arbitrary. Use your own judgment. Perhaps there are no direct competitors (Finestkind has three) and the main competition is indirect.

But make sure to regularly keep abreast of the competition. Business—any business—is too competitive to allow your attention to lapse.

An advantage for a small business is being able to operate profitably in a market too small for big businesses to consider.

A Sample Description of the Competition

There are three seafood operations competing directly with Finestkind:

1. Ferd's Fish—a scattered operation with one truck making the rounds and a small counter leased from a supermarket in Anytown. We have cut into their sales by making promised deliveries on time and at the agreed price. As a result, their operation has become marginal.

2. Kingfisher—a clean, three-man operation in Rye specializing in cheaper fish. Kingfisher has trouble with their suppliers because they aren't willing to pay top dockside prices in cash—the owner likes to haggle over price. The operation is well-financed and managed, has modern equipment, and sells directly to homes from a fleet of three trucks (very convenient). They have some wholesale business which they want to expand. Their sales are apparently growing because they have been serving the same routes for five years and have an excellent reputation. Rumor has it that Kingfisher is interested in buying Ferd's Fish or adding another delivery truck or two.

3. Job's Seafoods—currently rebuilding because of a disastrous fire but will be our most serious competitor when their new store opens. Job's has been in business for twenty-five years in Anytown and has a good location on a scenic bridge two miles south of Finestkind. Job's has good relations with suppliers and serves most of the supermarkets. Currently, they have no retail business but plan to open a retail store in their new building. However, the owner needs a major eye operation and may be willing to part with some of his wholesale business since he is getting on in years.

Indirect competition is from major processors in Portland (45 miles east) and Boston (60 miles south). Since we fall between their primary market areas we can purchase from both on consignment basis.

By looking carefully at their competition, Finestkind has the basis for a competitive marketing strategy. They seek information about competitor's strengths (to learn from) and weaknesses (to avoid). They aim to find a market segment which is being underserved or undersatisfied, to form a strategy taking advantage of that competitive oversight, to gain a niche, and then to defend it. An advantage for a small business is being able to operate profitably in a market too small for big businesses to consider.

Ninety-eight percent of small-business failures stem from managerial weakness.

F. Management

According to various studies of factors involved in small-business failures, 98% of the failures stem from managerial weakness. Two percent of the failures are due to factors beyond control of the persons involved.

Your business plan must take this into account. If you are preparing a financing proposal you should make sure that your prospective financing source is aware of what steps you have taken or are taking to correct any weakness in your managerial staff (yourself and any other managerial persons involved); if you are to use your business plan to its fullest, you should use this segment to highlight both strengths and weaknesses of management for your own sake.

The failure factor breakdown provides a guide:

Managerial incompetence	45%
Inexperience in the line	9%
Inexperience in management	18%
Unbalanced expertise	20%
Neglect of business	3%
Fraud	2%
Disaster	1%
Total:	98%

There is no known cure for incompetence—but there are two very direct cures for inexperience and/or unbalanced experience: Get the necessary experience yourself; get a partner or employee who has the requisite experience. (An important Small Business Administration study showed a high correlation between small business success and having a partner as opposed to being a solo act.)

The final three items represent managerial failures because neglect of business, fraud, or being put out of business by disaster could almost always have been prevented by foresight. Insurance, for example, can protect a business against both fraud and disaster, while neglect of business is a form of business suicide.

In preparing the management section, there are five areas to cover:

- 1. Personal History of the Principals*
- 2. Related Work Experience*
- 3. Duties and Responsibilities*
- 4. Salaries*
- 5. Resources Available to the Business*

Personal History of Principals

This segment should include responses to the following questions:

1. *What is your business background?*
2. *What management experience have you had?*
3. *What education (including both formal and informal learning experiences) has a bearing on your managerial abilities?*
4. *What is (are) your age(s), special abilities and interests, reasons for going into business, where do you live and have you lived, and so on.* The personal data needn't be a confession, but it should reflect where your motivation comes from. Without a lot of motivation, your chances of success are slight. It pays to be ruthlessly honest with yourself—even if you don't put the results on paper.
5. *Are you physically up to the job?* Stamina counts.
6. *Why are you going to be successful in this venture?* Keep in mind that your family will be affected by your decision to go into business. Try to assess the potential fallout—while your family may be supportive now, will they continue to be when you're putting in 80 hour weeks for very little money?
7. *What is your personal financial status?* A personal balance sheet must be included as a supporting document in your business plan if the plan is to double as a financing proposal.

Bankers and other providers of capital want to see as much collateral as possible to secure their investment. There are no small business loans; there are only loans to small business owners, and under most circumstances the personal credit-worthiness of the principals will be the major factor in your banker's decision.

You will undoubtedly be expected to personally guarantee the loan. This means that your personal assets may be taken if the business fails—even if the business is a corporation. Your banker doesn't want to be in the secondhand house business—but centuries of experience indicate that if you are personally tied to the business, you'll be less apt to walk away from it if things get tight.

Related Work Experience

This segment is a detailed response to the experience factors mentioned earlier. It includes (but is not limited to) responses to the following:

1. *What is your direct operational experience in this kind of business?*
2. *What is your managerial experience in this kind of business?*

There are no small business loans; there are only loans to small business owners.

3. *What other managerial experience have you had—in different businesses, in a club or on a team, in civic or religious organizations, or in some other area?* Many managerial skills are transferable. Others are not—but the more evidence and analysis of your managerial experience you can show, the better. You'll be able to use this to plug managerial gaps.

Unbalanced managerial experience can cause serious problems. For example, the talents required of a financial specialist are quite different from those of a used car salesman. Combination of both sets of talent in one individual is rare.

Duties and Responsibilities

Once you have written down the experience and skills (and have a feel for the weaknesses) of the proposed management, this segment becomes much simpler. Follow the rule: Always build on strengths and seek to alleviate weaknesses.

This is a variant on “you can't make a silk purse out of a sow's ear”—attempting to make a salesman out of a retiring clerk is folly. Attempting to make a sales manager out of your star salesman may also be folly. Use skills to advantage.

The most scarce asset you will have is time. To make the most of it, make sure that you budget your time carefully by spelling out, in advance:

- Who does what;
- Who reports to whom; and
- Who makes the final decisions.

Make sure you allot adequate time for:

1. Planning and reviewing plans;
2. Major operating duties (purchasing, sales, personnel, production, distribution, promotion and advertising, marketing, and so forth as needed in your business); and
3. More planning.

The purpose of your business plan is to make your business run more smoothly, more profitably and more easily. If you find that you spend a lot of time solving yesterday's problems, stop. Get out of the shop, sit down somewhere quiet and begin to plan. That time investment—anywhere from a few hours to a few days—can make all the difference.

Allocating duties and responsibilities is critical. If the chain of command is unclear to your employees, you will have the worst kinds of personnel problems. This is a major management responsibility and must not be evaded under the hopeful guise of “we can work it out later when we see where the problems are.” By then it will be too late.

Salaries

A simple statement of what the management will be paid is sufficient. Just remember to cut the fat from your personal budget, add 15% for contingencies, and then stick to it. Many deals never get going because bankers feel the principals are getting paid more than they should; other deals self-destruct when the rock-bottom salary figures, unrealistic to begin with, are altered without planning, thus throwing the budgets into disarray. Be realistic. Don't be greedy. Your payoff comes in the future, after your business becomes successful.

Banks have a wealth of information about businesses which you can tap simply by asking.

To help you figure out what you need to live on, we have provided some Cost of Living Budget forms in Appendix E.

Knowing what you need, as distinguished from thinking you know what you need, takes effort—but one sure way to damage a small business is to bleed it for family necessities. If your business can't afford to pay you a living wage, and you have no other income or savings, you had better think your deal over again.

If you are preparing a financing plan, your banker will need the Cost of Living Budget to help justify your salary requirements. Remember: Be realistic.

Resources Available to the Business

All businesses, no matter how tiny, need:

1. An accountant;
2. A lawyer;
3. A banker; and
4. An insurance agent or broker

If you have to be told why you need these, you shouldn't be contemplating going into business.

Other sources of assistance include:

5. Chambers of Commerce, Regional Planning Commissions and Councils.
6. Business, trade, and civic organizations
7. Small Business Administration technical assistance, ACE and SCORE programs.
8. Consultants.
9. Colleges, universities and schools.
10. Federal, state and local agencies.
11. Your board of directors.

Don't forget: Your banker can be among the most helpful of all due to the nature of the job. Bankers trade in information as much as in credit, and banks have a wealth of information about businesses which you can tap simply by asking.

You won't have to use all of these resources (except the first four), but it is a good idea to know what help will be available if you need it, and to know where it is (and who it is) well ahead of time.

List these resources, and make yourself known to them. You can plug many gaps in your experience and increase your chances of success by relying on other persons' experience. Tapping into many of these resources will cost you no more than time and a phone call.

Summary

This section is intended to make you aware of the availability of management skills in and outside your business. If you keep in mind the necessity of managing your business rather than letting your business manage you (and constantly review and reevaluate the results of this analysis in the future), you will drastically reduce the odds against you. Keep this section short, direct, and honest.

A Sample Description of Management

Mr. Gosling was born in Anytown, Maine and has lived there all his life. After graduating from local schools and serving in the U.S. Navy for three years, he became a self-employed carpenter, taking night courses in small-business management and sales at the University of Maine, with the aim of owning and managing a retail store. He currently serves on the local zoning board. He and his wife (a medical secretary) live in Anytown with their two children.

Mr. Swan was born in Wisconsin, attended schools in Utah, Alaska and Florida, and served four years in the Marines (rank upon separation: E-3). He test-drove motorcycles for a year, then served as parts manager for Wheely Cycles, Inc. before joining the Fatback Fish Division of Tasty Foods as a packer in March 1983 in their East Machias, Maine, plant. In June 1985 he resigned as line foreman of the Frozen Food Filleting Department to join Mr. Gosling in Finestkind. He is unmarried and lives in Anytown.

Both men are healthy and energetic. They believe their energies complement each other and will help them make Finestkind a success. In particular, Mr. Swan knows all of the fishermen while Mr. Gosling is a well-known member of the community. Since Mr. Swan has had experience in cost control and line management, he will be responsible for the store and inventory control. Mr. Gosling will be primarily responsible for developing the wholesale business. They will set policies together. Personnel decisions will be made jointly.

continued on next page

A Sample Description of Management

continued from previous page

Salaries will be \$950/month for the first year to enable the business to pay off startup costs. Mr. Gosling's wife earns enough to support their family; Mr. Swan's personal expenditures are low since he shares a house with five other men. In the second year they will earn \$1200/month, in the third year \$1500/month with any profits returned to the business.

In order to augment their skills, they have enlisted the help of Smith & Farley (CPAs), Mason Petrocelli (lawyer), and Halsey Johnson, a retired banker who will be on their advisory board. Other advisory board members are Andrew O'Bangfo, business consultant, University of Maine's Venture Incubator Division's Etienne LeBlanc, and Andy Kerr of FROG (Fish Retailers Organized for Growth). This board will provide ongoing management review.

G. Personnel

Businesses stand or fall on the strength of their personnel.

Personnel management is a major stumbling block for small business owners. Personnel management is a demanding profession that few people learn; the assumption that “I can manage people because I’ve been around” is dangerous. You may find it valuable to hire a consultant to set up your personnel systems, help in hiring and training, and educate you in personnel management. While the cost may seem high initially, the cost of a poor hiring process can be catastrophic.

Businesses stand or fall on the strength of their personnel. Good employees can make a marginal deal go; poor employees can destroy the best business.

As with other management tasks, personnel management requires careful planning. Here are some questions to think about as you outline your personnel needs for the future:

- 1. What are your personnel needs now? In the near future? In five years?*
- 2. What skills will your business need?*
- 3. Are the people with those skills available? Where?*
- 4. Will you have full or part-time employees?*
- 5. Will your employees be salaried or hourly?*
- 6. What fringe benefits will you offer?*
- 7. Will you pay overtime?*
- 8. Will you have to train people? If so, at what cost to your business (time, interrupted work flow, money)?*

Be careful. Training can be a hidden cost that you didn’t expect.

Hire people only when it will result in added profitability for your business, and think before hiring whether the job is really necessary. If it is, then careful selection of the right person for that job will pay off. Salaries are a fixed expense, and you want to be sure that the expense is really necessary.

A Sample Description of Personnel

Finestkind will hire one part-time salesperson within six months to sell seafoods over the counter to the retail customers. He or she will be paid \$4.00/hour for weekend work; no fringe benefits or overtime are anticipated. We will also employ, on an as-needed basis, one cutter at \$6.75/hour to help process seafood for the wholesale trade. We think the counter help will be needed for 10 weeks during the summer and the cutter will be needed for about 20 hours/week for 16 weeks. (This should take care of the second summer as well. For the third year, we plan on two counter helpers plus a full-time summer cutter.) In the second year we'll add one full-time employee at \$850/month, with a raise to \$900/month in the third year.

No further employees are planned for unless business grows more rapidly than we have forecast.

H. Application and Expected Effect of Loan

This section is important whether you are seeking a loan or planning to finance your deal yourself. In determining how much money you'll need and for what purposes it will be used, do not rely on guesses when exact prices or firm estimates are available. If you must make an estimate, specify how you arrived at your figures.

It is often helpful to make a three-column list.

Bare Bones (What you can just scrape by with—secondhand, makeshift—the bare minimum.)	Reasonable (What you will most likely get—some new, some used, some fancy, some plain.)	Optimal (What you'd like if money were no problem.)
1. Bicycle with large basket (Schwinn '52 at \$12.50)	Pickup truck with insulated camper adapted for icing fish ('81 Ranchero \$3,885)	Custom-made truck with new freezer unit (new El Dorado \$18,500)
2. Used desk (\$7.00)	Inexpensive desk (\$55)	New teak desk (\$750)

Fill out the Bare Bones and Optimal columns first, then make your reasonable choice. It may be important for you to have a luxury item or two, but weigh the cost. This tabular worksheet is particularly handy for a startup business and can be used whenever a purchase of additional equipment is contemplated.

Make sure that this section contains responses to the following:

1. How is the loan or investment to be spent? This can be fairly general (working capital and new equipment, inventory, supplies, and so on).

2. What items will be purchased?

3. Who is the supplier?

4. What is the price?

5. What is the specific model name and/or number of your purchase?

6. How much did you (will you) pay in sales tax, installation charges, freight or delivery fees?

Your banker may be interested in using whatever it is you are buying as collateral for the loan. By having a list, your loan can be processed faster.

You should consider the possible advantages of leasing some of the capital equipment you need and definitely look into the advantages of renting rather than owning your place of business. If you have the money to buy, owning may (or may not—ask your accountant) be less expensive than leasing. If you are short of cash, a lease arrangement may enable you to ease your cash problems by lowering your investment in fixed assets (perhaps a sale/lease back deal would help if you already own the building).

Leases also have great flexibility: as your business grows, you may want to change some of the fixed assets. Leases also have certain tax advantages. Once more, check with your accountant.

Most importantly, ask yourself:

7. How will the loan make your business more profitable?

Interest is an expense which directly reduces profits. If you propose borrowing money or investing your own, you must know how well that money will work for you.

Make sure the loan earns more than it costs.

The exact figures in the Application and Expected Effect of the Loan or Investment section won't be available until you have worked through the financial data—but the fixed assets you plan to acquire and some working capital needs can and should be addressed here. You can always pare back from Reasonable to Bare Bones (for example) if your finances demand it.

If you propose borrowing money or investing your own, you must know how well that money will work for you.

A Sample of Application and Expected Effect of Loan or Investment

The \$120,000 will be used as follows:

Purchase of Main Street property	\$75,000
Equipment:	
Used Ford pickup with insulated body	3,885
Dayton compressor (used, serial #45-cah-990)	365
Sharp slicer (used, Speedy model)	400
Renovations (see contractor's letter in Appendix)	12,500
Working capital	12,000
Inventory	1,500
Cash reserve	14,350
Total:	\$120,000

continued on next page

A Sample of Application and Expected Effect of Loan or Investment

continued from previous page

Finestkind can purchase the 123 Main Street property at a substantial savings under the terms of a lease/purchase agreement. An independent appraiser has calculated the value of the property, including leasehold improvements already done by Finestkind, at \$135,000 (see appraisal in Appendix). The monthly payment for 15-year mortgage (\$75,000 at 11.5% interest) will be \$875/month, a net increase of \$325/month over the current rent. See the Financial Data section for the effect on the business.

The truck will be used to deliver merchandise to our wholesale customers, retard spoilage, and maintain the quality of the seafood.

The compressor will replace the one now used for the freezer, and will lower electrical costs and provide a measure of insurance against loss of refrigeration. (We'll keep the old compressor as a spare.)

The slicer will save four man-hours of work daily. The time released will be used for soliciting more business and processing a greater volume of whole fish. With the slicer, relatively untrained help can fillet flounder with minimal waste.

The renovations are: a deep water well required by the state, a toilet and wash sink separate from the work area, and replacement of the current obsolete heating system, to reduce fuel expenses.

The working capital will enable Finestkind to meet current expenses, offset negative seasonal cash flow as shown in the Cash Flow Projection in the Financial Data section, and insure the continued growth of the business.

The inventory is to take advantage of bulk rates on certain fresh frozen packaged goods such as red snapper or South American spiny lobster.

The bank will hold the reserve as a line of credit. It will be used to take advantage of special opportunities or to meet emergencies.

The sample is modest. For a more complicated deal, much more detail would be needed. Be guided by your judgment in this section. The hard figures in the Financial Data section will provide support for a loan proposal, but the objective here is to give the reader, either you or your banker, a qualitative insight into the expected effect of the loan on the business.

Notice that Finestkind has asked that \$14,350 be reserved as a line of credit to allow them to take advantage of opportunities that may arise in the future.

Frequently a small business grows too fast, and when it turns to its bank for additional financing, the funds are denied. By reserving funds ahead of time, those funds will be available, but because they aren't disbursed, they won't incur additional interest expense. Finestkind is looking ahead to forestall cash-flow problems, a good example of careful planning.

I. Summary

The purpose of this section is to summarize the ideas you have developed in the preceding sections. This summary will help you make sure that the different parts of the analysis make sense, that they support each other logically and coherently, and that they will leave the reader with a concise, convincing statement that the project and plan are feasible.

A Sample Summary

Finestkind Seafoods, Inc. is a fish market serving retail and wholesale markets in and around Anytown, ME. Mike Gosling and Mike Swan, the owners, are seeking \$120,000 to purchase the 123 Main Street property, perform necessary renovations and improvements to the property, maintain a cash reserve and provide adequate working capital for anticipated expansion of the business. This amount will be sufficient to finance transition through a planned expansion phase so the business can operate as an ongoing, profitable venture.

Careful analysis of the potential market shows an unfilled demand for exceptionally fresh seafood. Mr. Gosling's local reputation will help secure a sizable portion of the wholesale market, while Mr. Swan's managerial experience assures that the entire operation will be carefully controlled. Mr. Gosling's current studies at University of Maine will provide even more control over the projected growth of Finestkind and complement the advice of a thoughtfully selected advisory board.

The funds sought will result in a greater increase in fixed assets than may be shown, as Mr. Gosling will be performing much additional renovation and improvements himself. The additional reserve and working capital will enable Finestkind to substantially increase their sales while maintaining profitability.

Guidelines for the Summary Section

The following checklist will help you make sure that important points are covered in your summary. These guidelines are a suggestion; your business plan may need to emphasize different points. If so, make sure that they are included.

Description of Business:

1. Business form: proprietorship, partnership, or corporation?
2. Type of business: merchandising, manufacturing, or service?
3. What is the product and/or service?
4. Is it a new business? A takeover? An expansion?

5. Why will your business be profitable?
6. When is your business open?
7. Is it a seasonal business?
8. What have you learned about your kind of business from outside sources (trade suppliers, bankers, other business owners, publications)?

Product/Service

1. What are you selling?
2. What benefits you are selling?
3. Which products are rising stars? Which are steady cash cows? Which are in decline or investments in ego?
4. What is different about your goods and services?

The Market

1. Who buys from you? Define your target markets.
2. Are your markets growing, steady or declining?
3. Is your market share growing, steady, or declining?
4. Have you segmented your markets? How?
5. Are your markets large enough for expansion?
6. How will you attract, hold and increase your market share?
7. Are you planning to enter or leave any markets?
8. How do you price your products?

Competition

1. Who are your nearest direct competitors?
2. Who are your indirect competitors?
3. How are their businesses similar to and different from yours?
4. What have you learned from their operations? From their advertising?

Location of business

1. Where are you (or should you be) located?
2. Why is it a desirable area? A desirable building?
3. What kind of space do you need?
4. Are any demographic or other market shifts going on?

Management

1. How does your background/business experience help you in this business? For your own use, what weaknesses do you have and how will you compensate for them? What related work experience do you have?
2. Who is on the management team?
3. What are their strengths and weaknesses?
4. What are their duties?
5. Are these duties clearly defined? How?
6. What additional resources are available to your business?

Personnel

1. What are your current personnel needs?
2. What skills will your employees need in the near future? In five years?
3. What are your plans for hiring and training personnel?

Application and Expected Effect of Loan (Investment)

1. How will the loan (investment) make your business more profitable?
2. Should you buy or lease (equipment, your place of business, and so on)?
3. Do you need this money? Establish a procedure for making borrowing decisions, and plan your borrowing.

Section Two: Financial Data

Policy and control are the key ingredients of any successful business. Policy establishes what your business will do. Control measures the accomplishment of policy goals.

If you don't control your business, it will control you.

The heart of the operation is in the accounting system. Before you start your business, it is essential that you have a competent accountant set up a system to give you adequate accounting records. If you can't afford this, you are simply too undercapitalized to be in business. If you don't understand the need for accounting records, you don't have enough management experience to be starting a business. This is a common problem area for many small businesses.

Control is essential. If you don't control your business, it will control you.

The overriding policy of your business is to find out what your markets want, satisfy those wants, and make a profit while doing so. The implementation of your policy depends on planning and using your plan as a means of controlling your business. The first step towards managing your business for profits is to establish a bookkeeping system which provides you with the raw data for the five control documents (balance sheet, break-even analysis, income statement, cash flow, and deviation analysis) which will be developed in this section.

Your bookkeeping system should be simple enough for you or an employee to keep up-to-date on a daily basis with provisions made for weekly, monthly, quarterly, and yearly summaries. The system must contain cash controls (a checkbook and a cash register tape are part of your bookkeeping system). Beyond this, your method of bookkeeping should be suited to your specific needs.

Since your bookkeeping system is the basis of your business information (control) system, and since only you know what kind of information you will require beyond the demands of this section, no attempt is made in this handbook to set up a system for you.

There are three resources for setting up your bookkeeping system:

1. You or an in-house bookkeeper;
2. Business service firms; and
3. Accountants

Each has advantages and drawbacks. You should decide which suits your needs best. The do-it-yourself systems are lowest in cost but require more time and often provide less information than professional business service firms and accountants provide. However, business service firms and accountants cost

Develop your financial statements with an eye on your information needs.

considerably more. Your best bet is to check out all three before making your decision. Keep in mind that business service firms and accountants act as outside staff (management consultants) for your business as part of their services. This extra service alone often justifies their higher costs.

The kind of insights a good accountant (whether with a business service firm or a CPA firm) can bring include analysis of your financial statements, wide experience with many other small businesses, knowledge about people and markets that can help you, advice on choosing and using up-to-date computer power, and other general managerial tools. They also provide tax advice—which should be the least of your worries. (Sometimes a good tax accountant can actually make you more money in tax savings than he or she costs in fees.)

The five control documents mentioned earlier provide the structure for your planning efforts. Properly used, they act as a budgeting tool, an early warning system, a problem identifier, and a solution generator. Used inconsistently or not at all, they are worthless. Used incorrectly they are dangerous. Misleading financial information can lead to making bad or disastrous decisions.

These documents needn't be very complicated. Develop your financial statements with an eye on your information needs, using your common sense and your accountant's experience as guides to the level of detail needed. (It's also possible to suffer from too much information.)

These statements should be used systematically. Make it policy to spend at least several hours (preferably free from distractions) each month checking them over, once your business is underway. By doing so your information will be fresh and of greatest value to you, and help you plan profitable strategies, make good business decisions, and set reasonable objectives for the future.

Ultimately, your accounting system should be a working model of your business. A business manager has two concurrent objectives (which may conflict): to make a profit and to pay bills as they come due. These objectives are reflected in the two most important financial statements, the income statement and the cash flow projection. The income statement (also called the profit and loss statement) is designed to show how well the company's operations are being performed over time by subtracting expenses from sales (profit or loss). The cash flow projection is designed to show how well the company is managing its cash (liquidity) by subtracting disbursements (actual cash outlays) from cash received.

The balance between profitability and liquidity can be hard to maintain. Fast growth (with high profits) can deplete cash, causing illiquidity. Companies have been known to fail even while they are profitable. The role of projected income and cash flow statements is to help you spot these kinds of severe problems in time to do something to forestall them—such as raise new capital or arrange for the right kind of financing. Your banker will be helpful here; ask.

The break-even statement is based on the income and cash flow statements. It is a technique that no business can afford to ignore. Basically, the break-even shows the volume of revenue from sales you need to exactly balance the sum of your fixed and variable expenses. This document can be used to make decisions in such critically important areas as setting prices, whether to purchase or lease equipment, projecting profits or losses at different sales volumes, and even whether or not to hire a new employee.

The balance sheet records the past effect of such decisions. More to the point, it records what the cash position (liquidity) of the business is and what the owner's equity is at a given point in time. These are directly affected by the cash flow and income statement, which themselves are the records of how the business operates over time.

The deviation analysis compares actual performance to projected or budgeted performance on a monthly basis. As a guard against runaway expenses or destroyed budgets, it's unbeatable. You should compare both income statement and cash flow projections against actual performance. Most business experts will agree that more businesses are destroyed by the cumulative effects of a lot of small, sloppy errors (which deviation analysis highlights and helps you correct) than by large, powerful, obvious mismanagement.

Together, the income statement, cash flow, break-even, deviation analysis and balance sheet afford a comprehensive model of the operations, liquidity, and the past and near future of your business. If you have a computer and spreadsheet software, the information can be easily manipulated to give you answers to many revealing what-if questions: What if we raised prices 5%? What if we lose 15% of our customer base? Would it make sense to add these fixed expenses to obtain 10% greater productivity? And so on.

The value of such an interactive model of your business is hard to overstate. If you are not familiar with computerized financial models, check with the nearest business school (or your accountant). Just being able to trace out the short-term financial implications of a business decision can make a big difference in the quality of your judgments, to say nothing of your profits.

If there is only a single statement that is available, let it be your cash flow. A business that can't pay its bills can't stay in business for long even though the business may be operating at a profit. A schematic model of the cash flow is shown on Page 74. Remember: Cash inflows must be greater than or equal to cash outflows.

Projections are an integral part of the Financial Data section, and are critical to accurately evaluating the feasibility of your deal and to planning just how large an investment is required to get your business to a stable level of operation. Your assumptions must be carefully thought out and explained. Be honest here for your own benefit: Over-optimism can accelerate failure.

The following items should appear in the Financial Data section:

- A. Sources and Applications of Funding
- B. Capital Equipment List
- C. Balance Sheet
- D. Break-Even Analysis
- E. Income Statement Projections
- F. Cash Flow Projections
- G. Deviation Analysis
- H. Historical Records (for an existing business)

A. Sources and Applications of Funding

This subsection is needed for financing proposals, but also is handy for you as the owner. It's a restatement of the information in Section One-H: Application and Expected Effect of Loan or Investment on page 36. Major anticipated expenditures should be supported by copies of contracts, lease or purchase agreements, or other relevant documents.

The information presented here will show up in the cash flow projections, as the timing of the funds' flow is particularly important to maintaining liquidity.

A Sample Description of Sources and Applications of Funding

Finestkind Seafoods, Inc.

Sources:

1. Mortgage loan.....	\$ 75,000
2. Term loan.....	30,000
3. Reserved loan	15,000
4. New investment from Gosling and Swan	30,000
Total	\$150,000

Applications:

1. Purchase 123 Main Street property	\$105,000
2. Equipment.....	4,650
3. Renovations	12,500
4. Inventory.....	1,500
5. Working capital	12,000
6. Cash reserve for contingencies.....	14,350
Total	\$150,000

To be secured by the assets of the business and personal guarantees of the principals, Mike Gosling and Mike Swan.

B. Capital Equipment List

Your business plan should contain a Capital Equipment List: to help maintain control over depreciable assets, for insurance purposes, to insure against letting your reserve for replacement of capital equipment become too low (or be used as a slush fund), and to assist in the creation of a cost budget.

Capital equipment is that equipment which you use to manufacture a product, provide a service, or use to sell, store and deliver merchandise. It is not equipment which you will sell in the normal course of business, but rather is equipment that you will use and wear out or consume as you do business. This does not include items which are expected to need replacement annually or more frequently.

Examples of capital equipment are office furniture and business machines (desks, typewriters, computers, adding machines), store fixtures (display cases, refrigeration units, permanent fixtures such as air conditioning and lighting fixtures), machinery used to make products or deliver services (lathes, medical equipment) and delivery vehicles. None of these types of equipment is expected to wear out before a period of years. These goods are depreciable. Depreciation, the writing off of fixed assets over a period of years, is expressed as "depreciation expense" on the income statement, and serves to shelter income against taxes so you can replace the equipment as needed.

A sample Capital Equipment List for Finestkind appears below. No allowance for depreciation has been made since it is a new business. Otherwise, a column for accumulated depreciation would be shown so the depreciated value of the capital equipment could be displayed.

A cost budget is another useful control document which, due to the scope of this handbook, has been omitted. Its function is to allocate indirect expenses (overhead, interest on loans, office salaries, etc.) to separate operations of the business on a pro rata basis. Such allocations are especially important for a business which submits bids on contract. The SBA has an excellent booklet on this topic: SBA Management Aid No. 221, Business Plan for a Small Contractor.

A Sample Capital Equipment List

Finestkind Seafoods, Inc.		
Major Equipment and Normal Accessories:	Model:	Cost or List Price (whichever is lower):
Storequip, Inc. display case, glass front, ice	handmade	\$ 600
Storequip, Inc. display case, glass front, refrigerated	SST6-77K	1,700

continued on next page

Sample Capital Equipment List

continued from previous page

Finestkind Seafood, Inc.

Major Equipment and Normal Accessories:		Cost or List Price (whichever is lower):
Dayton air compressor	Model: 45-cah-990	\$365
Bendix standing freezer	3979-7584	350
GE standard freezer	—	50
Cleaning table, fiberglassed	handmade	200
Freezing locker and compressor	handmade	4,500
Total:		\$ 7,765
Minor shop equipment: Miscellaneous knives, scalers etc.	—	\$ 500
Miscellaneous display trays, boxes	—	350
Total:		\$ 850
Other equipment: Pickup truck with insulated body	1983 Ford, Lo-bed	\$ 4,000
Safe	1879 Diebold Mosler	200
Cash register	523 NCR	350
Calculator	TI-120	65
Computer and software	IBM XT	2,100
Light fixtures	custom	400
Total:		\$ 7,115
Capital Equipment Total:		\$ 15,730

If applicable, include sales tax and installation fees back onto the lower of cost or list price.

C. Balance Sheet

Balance sheets for all companies contain the same categories arranged in the same order.

Balance sheets are designed to show how the assets, liabilities and net worth of a company are distributed at a given point in time. The format is standardized to facilitate analysis and comparison—do not deviate from it.

Balance sheets for all companies, great and small, contain the same categories arranged in the same order. The difference is one of detail. Your balance sheet should be designed with your business information needs in mind. These will differ according to the kind of business you are in, the size of your business, and the amount of information which your bookkeeping and accounting systems make available.

A Sample Balance Sheet Format

Name of Business
Date (month, day, year)
Balance Sheet

Assets

Current Assets		\$ _____
Fixed Assets	\$ _____	
Less Accumulated Depreciation	\$ _____	
Net Fixed Assets		\$ _____
Other Assets		\$ _____
Total Assets:		\$ _____

Footnotes:

Liabilities

Current Liabilities	\$ _____
Long-Term Liabilities	\$ _____
Total Liabilities:	\$ _____

Net Worth (total assets minus total liabilities) or

Owner's Equity	\$ _____
Total Liabilities and Net Worth	\$ _____

Footnotes:

The categories can be defined more precisely. However, the order of the categories is important and you should follow it. They are arranged in order of decreasing liquidity (for assets) and decreasing immediacy (for liabilities).

A brief description of each principal category follows:

- 1. Current Assets:** cash, government securities, marketable securities, notes receivable (other than from officers or employees), accounts receivable, inventories, prepaid expenses, any other item which will or could be converted to cash in the normal course of business within one year.
- 2. Fixed Assets:** land, plant, equipment, leasehold improvements, other items which have an expected useful business life measured in years. Depreciation is applied to those fixed assets which (unlike land) will wear out. The fixed asset value of a depreciable item is shown as the net of cost minus accumulated depreciation.
- 3. Other Assets:** intangible assets such as patents, copyrights, exclusive use contracts, notes receivable from officers and employees.
- 4. Current Liabilities:** accounts payable, notes payable, accrued expenses (wages, salaries, withholding tax, FICA), taxes payable, current portion of long-term debt, other obligations coming due within one year.
- 5. Long-Term Liabilities:** mortgages, trust deeds, intermediate and long-term bank loans, equipment loans (all of these net of the current portion of long-term debt, which appears as a current liability).
- 6. Net Worth:** owner's equity, retained earnings, other equity.
- 7. Footnotes:** You should provide displays of any extraordinary item (for example, a schedule of payables). Contingent liabilities such as pending lawsuits should be included in the footnotes. Changes of accounting practices would also be mentioned here.

If you need to provide more detail, do so—but remember to follow the standard format. If your balance sheet is assembled by an accountant, the accountant will specify whether it is done with or without audit. If you do it yourself, it is without audit. The decision to use a CPA (Certified Public Accountant) should be made carefully for tax and other legal reasons.

A sample balance sheet for Finestkind follows on the next page.

The categories are arranged in order of decreasing liquidity (for assets) and decreasing immediacy (for liabilities).

The categories are arranged in order of decreasing liquidity (for assets) and decreasing immediacy (for liabilities).

Finestkind Seafoods, Inc.
October 1, 19—

Balance Sheet

Assets

Current Assets:

Cash	\$ 2,150
Accounts Receivable (net)	1,700
Merchandise Inventory	3,900
Supplies	450
Pre-Paid Expenses	320

Total Current Assets: \$ 8,520

Fixed Assets:

Fixtures and Leasehold	
Improvements (d)	\$13,265
Building (freezer)	4,500
Equipment	3,115
Trucks	6,500

Total Fixed Assets: \$27,380

Total Assets: \$35,900

Liabilities

Current Liabilities:

Accounts Payable	\$ 8,077
Current Portion Long-Term Debt	<u>1,440</u>

Total Current Liabilities: \$ 9,517

Long-Term Liabilities:

Note Payable (a)	\$ 535
Bank Loan Payable (b)	1,360
Equity Loan Payable (c)	<u>9,250</u>

Total Long-Term Liabilities: \$11,145

Total Liabilities: \$20,662

Net Worth:

Owners' Equity	<u>\$15,238</u>
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Total Liabilities and Net Worth: \$35,900

Accounts payable display:	Eldredge's Inc.	\$3,700
	Lesswing's	4,119
	Paxstone	180
	B&B Refrigeration	<u>78</u>
		\$8,077

- (a) Dave N. Hall for electrical work.
- (b) Term loan secured by 1974 Jeep, 1983 Ford.
- (c) S & C Finance Corp., Anytown, ME
- (d) Includes \$10,000 in improvements since June. See appraisal in Supporting Document section.

The balance sheet for Finestkind is modestly detailed. No depreciation has been taken, for example, because the business has just been started. The Net Worth section could have been more complex. The important thing to notice is that it provides a level of detail appropriate for the purposes of the principals, who own all of the stock.

Some financing sources (banks or other investors) may want to see balance sheets projected for each quarter for the first year of operation and annually for the next two. This would quickly show changes in debt, net worth, and the general condition of the business, and could be another helpful control document. You may wish to have a monthly balance sheet (easily done with a micro-computer-powered accounting system), but for many businesses, a year-end balance sheet is all that is required.

The balance sheet for Finestkind provides a level of detail appropriate for the purposes of the principals, who own all of the stock.

Preliminary Balance Sheet Analysis

1. Working Capital. Working capital is calculated by subtracting current liabilities from current assets. Cash is only a portion of working capital. Finestkind's working capital is negative [$\$8,520 - \$9,517 = (\$997)$], a dangerous but not uncommon position for many small (and at times, large) businesses to be in.

A low or negative working capital position is a major danger signal. A firm with this working capital situation is said to be illiquid. Because owners' equity is less than the debt, the creditors in effect "own" the business, and bankers would be reluctant to extend further loans. Among possible solutions to this type of problem would be a working capital loan (long-term, to be repaid from operating profits), sale of fixed assets, or financing accounts payable by arranging to spread payment over a longer term. The best solution (the one Finestkind chose) is to get new equity investment. (See Sources and Applications Section on page 47.)

2. Comparison. Comparison of year-end balance sheets over a period of years will highlight trends and spotlight weak areas. Since Finestkind is new, this option is not open to them. However, they can compare their business to other, similar operations by ratio analysis.

3. Ratio Analysis. This technique permits comparison in terms of percentages rather than dollars, thus making comparisons with other companies more accurate and informative. Among the more useful ratios are:

A. Current Ratio. This measures the liquidity of the company, its ability to meet current obligations (those coming due during the current year). It is calculated by dividing current assets by current liabilities. For Finestkind, divide $\$8,520$ by $\$9,517$. This yields a current ratio of 0.89, which is well below the current ratio of 2.0 some analysts would like to see. Finestkind is mildly illiquid. However, you need to know exactly what is represented by the figures to make a meaningful analysis. Inventory composition, quality of receivables, time of year and position in the sales cycle are all possible factors affecting the current ratio.

Increased sales do not necessarily mean increased profits.

B. Acid Test. This is another measure of liquidity (sometimes called the Quick Ratio), and it is calculated by dividing the most liquid assets (cash, securities and possibly current accounts receivable) by current liabilities. For Finestkind, $\$3,850/\$9,517 = 0.40$. The rule-of-thumb ratio should be 1.0.

A word of caution: The rule-of-thumb ratios are far from infallible, since the date on which the balance sheet is drawn and the kind of business will affect the ratios you come up with. Some companies need a current ratio of 2.7 to be considered liquid, others can get by with 1.5 or less (such as department stores just prior to the Christmas rush when their inventories and payables are particularly high).

Try to get trade figures for your kind of business from:

- Trade associations. These are apt to be very specific—a good example would be the Hardware Association's annual figures. Check with Ayer's Directory of Associations in your library and call the appropriate association for more information.
- Annual Statement Studies, which your banker will usually have, is available from the Robert Morris Associates.
- Dun & Bradstreet publishes Key Business Ratios, Cost of Doing Business: Partnerships & Proprietorships; also available for corporations.
- Ask a friendly competitor, perhaps in a non-competing location.
- Ask your banker and accountant for help finding current trade figures.
- Check your local library, business school, and Chamber of Commerce.

D. Break-Even Analysis

A break-even analysis provides a sales objective expressed in either dollar or unit sales at which your business will be breaking even, that is, neither making a profit nor losing money. Once you know your break-even point, you have an objective target that you can plan to reach by carefully reasoned steps.

It is essential to remember that: Increased sales do not necessarily mean increased profits.

More than one company has gone broke by ignoring the need for break-even analysis, especially in those cases where variable costs (those directly related to sales levels) get out of hand as sales volume grows.

Calculating the break-even point can be simple (for a one-product business) or very complex (for a multi-line business). Whatever the complexity, the basic technique is the same. Some of the figures you will need to calculate will have to be estimates. It is a good idea to make your estimates conservative by using somewhat pessimistic sales and margin figures, and by slightly overstating your expected costs.

The basic break-even formula is:

$$S = FC + VC$$

where

S = Break-even level of sales in dollars,

FC = Fixed costs in dollars, and

VC = Variable costs in dollars

Fixed costs are those costs which remain constant no matter what your sales volume may be*, those costs which must be met even if you make no sales at all. These include overhead costs (rent, office and administrative costs, salaries, benefits, FICA, etc.) and "hidden costs" such as depreciation, amortization and interest.

Variable costs are those costs associated with sales including cost of goods sold, variable labor costs, and sales commissions. These cost figures are further elaborated in the next section, Income Projections.

When you want to calculate a projected break-even and you therefore do not know what your total variable costs will be, you have to use a variation of the basic "S = FC + VC" formula. If you know what gross margin (profit on sales) to expect as a percent of sales, use the following formula:

$$S = FC / GM$$

where GM = Gross margin expressed as a percentage of sales

If instead of calculating a dollar break-even you want to determine how many units you need to sell to break even, simply divide the break-even derived above in dollars by the unit price to get the number of units to be sold.

**These costs remain constant only in a relevant range. Your sales could rise dramatically—for example, you may need a new building, some new administrative employees, and new equipment—and drive your fixed costs up disproportionately. Fixed costs tend to move up in chunks, not smoothly, if sales rise quickly. For Finestkind's experience, look at the three-year projections on page 67. "F" and "V" (on the extreme left-hand margin) denote fixed and variable cost allocations respectively. Note how the totals change over three years.*

A Sample Break-Even Analysis

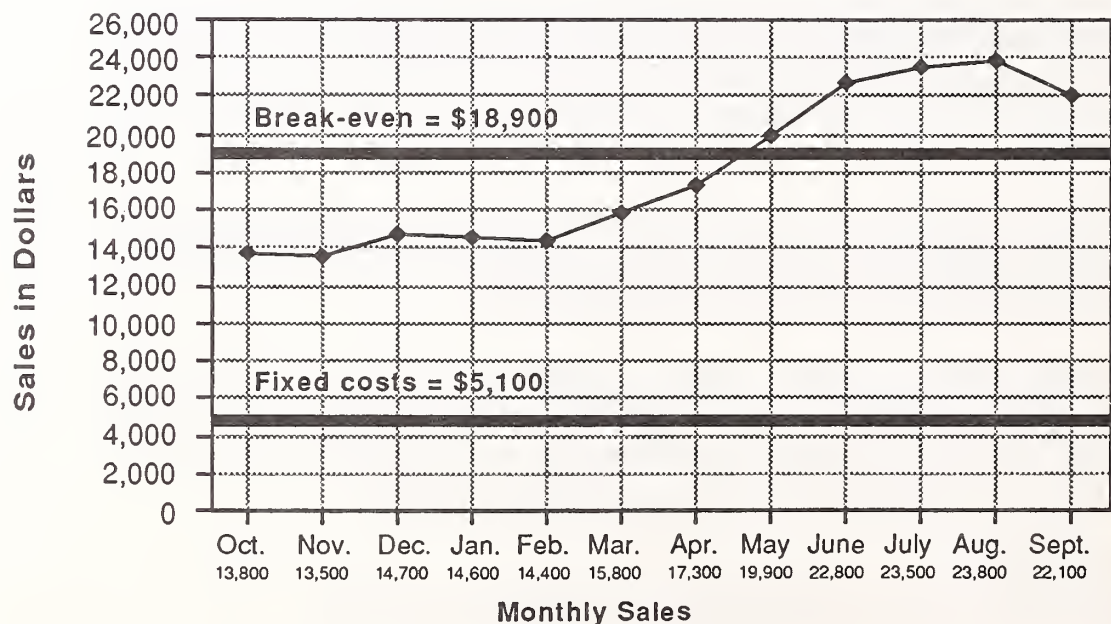
Projected figures from Finestkind's
Three-Year Income Projection on page 67

Fixed costs	FC = \$60,570
Gross Margin	GM = (57,680/216,000) = 26.7%

Thus, break-even sales = $S = FC/GM$
 $= (\$60,570/.267)$
 $= \$226,854/\text{year}$

On a monthly basis, $S = \$18,905/\text{month}$

Since sales are projected at a total of \$216,000 for the first year, Finestkind doesn't expect to make a profit—but since they know what they are apt to face, they will be able to plan ahead to finance their business properly.



This pictorial representation of break-even points is a handy way to make objectives more tangible than the usual "\$20,000 a month" kind of goal. It can be very illuminating (or daunting) to post your break-even projections, then trace out—in some vivid color on a monthly basis—how near to the projection you have come.

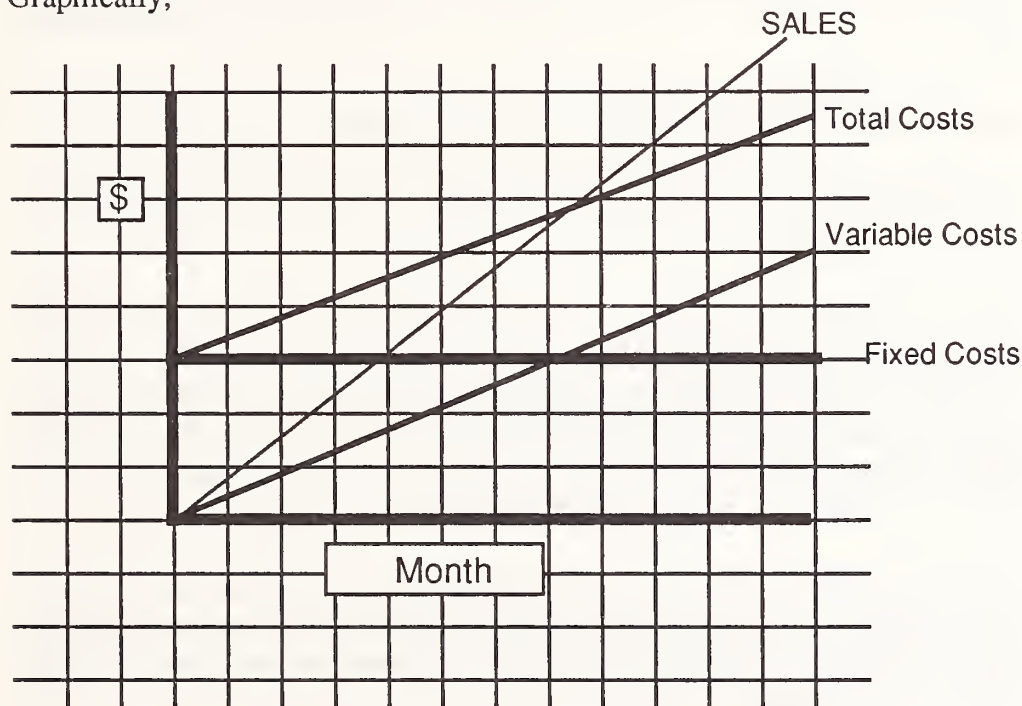
You can also use break-even charts to measure progress towards annual profit goals. Suppose Finestkind had aimed at a \$12,000 profit the first year. What sales would be needed?

$$S = (FC + \text{Profit})/GM$$

where Profit = \$12,000;

$$S = (\$60,570 + 12,000)/.267 = (\$72,570)/.267 = \$271,797/\text{year or } \$22,650/\text{month}.$$

Graphically,



Any time you can help your employees visualize progress towards a goal, you benefit. Break-even charts (again) are useful for more than financial planning purposes. Once you have calculated break-even sales, you may find it very helpful to break the sales down in terms of customers needed—as a reality check, this can keep you from making overly optimistic projections.

Here is how Finestkind determined the number of customers needed per month at break-even:

Assumptions:

1. They assumed that the proportions of retail and wholesale will remain the same as in the income projections.

2. Break-even in sales = \$226,000

$$\text{Retail} = (126/216) \times 226,000 = \$132,000/\text{year}$$

$$\text{Wholesale} = (90/216) \times 226,000 = 94,000/\text{year}$$

Experience has shown that the average retail customer spends \$16 per visit to Finestkind, and comes to the store (on average) twice a month.

Retail sales/month = $\$132,000/12 = \$11,000/\text{month}$

$\$11,000/\16 (average sale) = approximately 700 transactions each month. Since Finestkind's retail clientele consists of both steady local customers and tourist (one-time, drop-in) business, they plan in terms of gross sales.

Finestkind has projected retail sales of $\$126,000$ for the first year, or $\$10,500/\text{month}$. If they add $\$500/\text{month}$ to their retail sales, they will hit (retail) break-even projections. Finestkind currently has 17 wholesale customers who average 4 transactions per month at $\$60/\text{transaction}$. To achieve break-even as projected above,

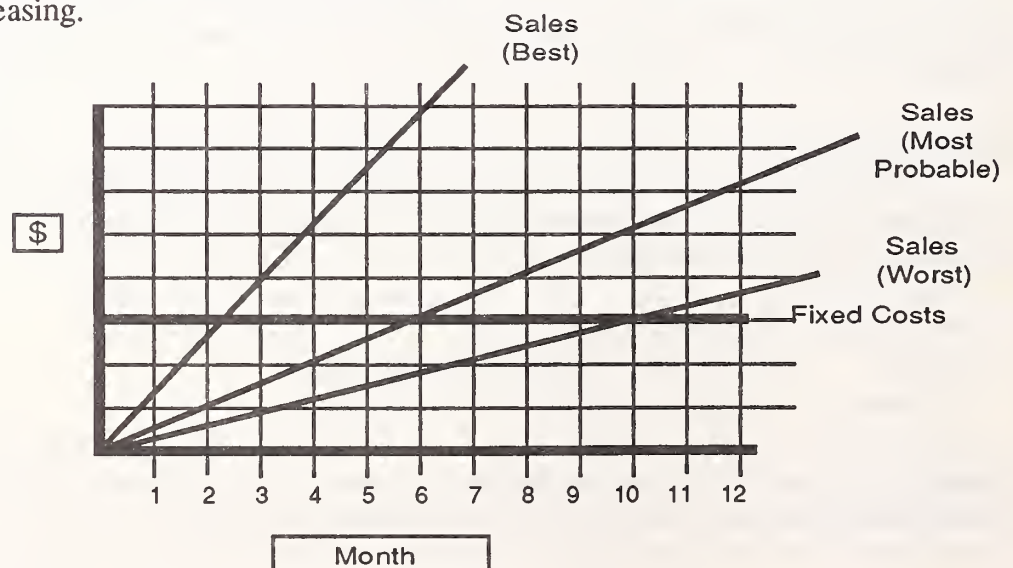
Wholesale sales/month = $\$94,000/12 = \$7,850/\text{month}$

$\$7,850/\60 (average sale) = approximately 130 transactions each month, or 33 wholesale customers.

Finestkind has projected wholesale sales of $\$90,000$ for the first year, or $\$7,500/\text{month}$. They currently average about $\$4,000/\text{month}$ wholesale, but view the wholesale market as ripe for expansion. They think they can add the necessary 16 new customers and/or increase the average sale. In fact, their marketing plans depend on being able to achieve a market penetration of better than 12% over the next 12 months. (12% of 300 = 36 customers)

Break-even analysis may also be represented pictorially. The diagramming helps establish forecasts, budgets and projections. Using a chart lets you substitute different combinations of numbers to obtain a rough estimate of their effect on your business.

A helpful technique is to make Worst Case, Best Case, and Most Probable Case assumptions, chart them to see how soon they cover fixed costs, and then derive more accurate figures by applying the various formulas and kinds of thinking displayed above. This is of particular value if you are thinking of making a capital investment and want a quick picture of the relative merits of buying or leasing.



E. Projected Income Statement

Income Statements, also called Profit and Loss Statements, complement balance sheets. The balance sheet gives a static picture of the company at a given point in time. The income statement provides a moving picture of the company during a particular period of time.

Financial statements that depict a future period are called pro-forma or projected financial statements. They represent what the company is expected to look like financially, based on a set of assumptions about the economy, market growth and other factors.

Income projections are forecasting and budgeting tools estimating income and anticipating expenses in the near to middle range future. For most businesses (and for most bankers) income projections covering one to three years are more than adequate. In some cases, a longer-range projection may be called for, but in general, the longer the projection, the less accurate it will be as a guide to action.

You don't need a crystal ball to make your projection. While no set of projections will be 100% accurate, experience and practice tend to make the projections more precise. Even if your income projections are not accurate, they will provide you with a rough set of benchmarks to test your progress towards short-term goals. They become the base of your budgets.

There is nothing sacred about income projections. If they are wildly incorrect, correct them to make a more realistic guide. When you do this is a matter of judgment. A rule of thumb is that if they are more than 20% off for a quarter (three months), redo them. If they are less than 20% off, wait for another quarter. Do not change your projections more often. In a short period, certain trends will be magnified, and these distortions will usually be evened out over the long run. Of course, if you find you have omitted a major expense item or discover a significant new source of revenue, you will want to make immediate corrections. Use your common sense.

The reasoning behind income projection is: Since most expenses are predictable and income doesn't fluctuate too drastically, the future will be much like the past. For example, if your gross margin has historically been 30% of net sales, it will (barring strong evidence to the contrary) continue to be 30% of net sales. If you are in a startup situation, look for financial statement information and income ratios for businesses similar to yours. The Robert Morris Associates' "Annual Statement Studies" and trade association publications are two sources mentioned earlier. (See Appendix Three: Bibliography and Resources.)

It is important to be systematic and thorough when you list your expenses. The expense that bleeds your business dry (makes it illiquid) is almost always one which was overlooked or seriously misjudged—and therefore unplanned for. There are some expenses that cannot be foreseen, and the best way to allow for them is to be conservative in your estimates and to document your assumptions.

Income projections are forecasting and budgeting tools.

Detect deviations as soon as possible to correct problems before they become major, and seize opportunities while they are still fresh.

Try to understate your expected sales and overstate expenses.

It is better to exceed a conservative budget than to fall below optimistic projections. However, being too far under can also create problems—such as not having enough capital to finance growth. Basing income projections on hopes or unjustified fears is hazardous to your business's health. Be realistic; your budget is an extension of your forecasts.

Income statements and projections are standardized to facilitate comparison and analysis. They must be dated to indicate the period of time they cover and also contain notes to explain any unusual items such as windfall profits, litigation expenses and judgments, changes in depreciation schedules and other material information. Any assumptions should be footnoted—to help remind you of how the numbers were originally justified, and to provide a boost up the learning curve when you review your projections before making new ones.

Income statements should be reviewed at least once a quarter to check their validity and, if necessary, to make adjustments or make changes in your business's operations. As a budget tool, the actual progress of your business should be compared against the projections every month. You have to detect deviations as soon as possible to correct problems before they become major, and to seize opportunities while they are still fresh.

Suggested formats for an income statement and an income projection follow. The content as shown in the sample may have to be modified to fit your particular operation, but do not change the basic form.

Remember: The purpose of financial statements and forecasts is to provide you with the maximum amount of useful information and guidance, not to dazzle a prospective investor.

A Sample Income Statement Format

- (1) **Net Sales:**
- (2) **less Cost of Goods Sold:**
- (3) **equals Gross Margin:**
- (4) **Operating Expenses:**
 - Salaries and Wages
 - Payroll Taxes and Benefits
 - Rent
 - Utilities
 - Maintenance
 - Office Supplies
 - Postage
 - Automobile and Truck
 - Insurance
 - Legal and Accounting
 - Depreciation
 - Others:

- (5) **Other Expenses:**
 - Interest
- (6) **Total Expenses:**
- (7) **Profit (Loss) Pre-Tax:**
- (8) **Taxes:**
- (9) **Net Profit (Loss):**

Explanation of Sample:

- (1) **Net Sales:** Gross sales less returns, allowances and discounts.
- (2) **Cost of Goods Sold:** Includes cost of inventories.
- (3) **Gross Margin:** (1) Net Sales minus (2) Cost of Goods Sold. Represents the gross profit on sales without taking indirect costs into account.
- (4) **Operating Expenses:** These are the costs which, together with (5) Other Expenses, must be met no matter what the sales level may be. The order in which they are stated isn't important. Thoroughness is. If some costs are trivial, lump them together under a heading of "miscellaneous," but be prepared to break them out if the miscellaneous totals more than an arbitrary 1% of Net Sales.
- (5) **Other Expenses:** These are non-operating expenses. The most common is interest expense. It is helpful to display your interest expense in some detail to both highlight the cost of money and to provide easy access to information used for ratio analysis.
- (6) **Total Expenses:** Sum of (4) Operating Expenses and (5) Other Expenses.
- (7) **Profit (Loss) Pre-Tax:** (3) Gross Margin minus (6) Total Expenses. This is the tax base, the figure on which your tax will be calculated.
- (8) **Taxes:** Consult your accountant.
- (9) **Net Profit (Loss):** (7) minus (8). This represents the success or lack thereof for your business. There are three ways to make this figure more positive: increase gross margin, decrease total expenses, or both.

continued on next page

Your sales forecasts are the basis for most of your financial planning.

continued from previous page

For the most useful projection, state your assumptions clearly. Do not put down numbers that you cannot rationally substantiate. Do not puff your gross sales projection to make the net profit positive. Give yourself conservative sales figures and pessimistic expense figures to make the success of your deal more probable. Be realistic.

You want your projections to reflect the realities of your business.

Income and Cash Flow Forecasting

Smaller businesses should make three-year projections for both planning purposes and loan proposals. The proper sequence for both income and cash flow projections is:

1. A three-year summary.
2. First year projected by month. If the business doesn't break even in the first year, you might want to continue the monthly projections until it does.
3. Years Two and Three by quarter.

If you are already in business or are considering taking over an existing business, historical financial statements should be included for two immediately previous years. Tax returns help to substantiate the validity of unaudited statements.

A Note on Sales Forecasts

Whether you've been in business for a while or are starting a business, your sales forecasts are the basis for most of your financial planning.

One helpful technique to use involves breaking your goods and services into several lines, then applying a three-column form to arrive at a "most likely" figure.

Begin by assuming the worst. In the column headed "low," put down the sales you expect if everything goes wrong—poor weather, loss of market share to a new competitor, new product competition that you can't match and so on. Be gloomy. Assume your salespeople will be loutish, lazy and surly.

Then—this is more fun—assume everything works out the way you'd wish. In the column headed "high," put down your rosiest hopes. All your promotional efforts will succeed, markets will grow dynamically, your competition will stub their toes and slink away from the market, your suppliers will be able to instantaneously fulfill your stocking requirements.

Now look to a realistic scenario, where things work out in between the high and low estimates. The figures here will (usually) be more accurate than a one-time estimate can be, since more thought has gone into their preparation. Do this for the period you need to forecast.

Sales Forecast: For (month, year) to (month, year)

Sales:	Low	Most Likely	High
Product/Service 1	_____	_____	_____
Product/Service 2	_____	_____	_____
Product/Service 3	_____	_____	_____
Product/Service 4	_____	_____	_____
Total Sales:	_____	_____	_____

You can apply the same process to forecasting expenses, even though most expenses are reasonably predictable once the sales forecasts have been established.

Finestkind broke sales into two categories, wholesale and retail. If they had had a third line, for example direct mail sales, they would have added a third sales forecast line to their planning.

Income Projection by Month, Year One

	A	B	C	D	E	F	G	H	I	J	K	L	M	N
1		October	November	December	January	February	March	April	May	June	July	August	September	Total
2					19--									
3	Sales													
4		Wholesale	\$4,000	\$5,200	\$5,600	\$6,000	\$7,000	\$7,000	\$8,400	\$10,600	\$11,300	\$11,300	\$9,600	\$90,000
5		Retail	\$9,730	\$9,500	\$9,000	\$8,400	\$8,750	\$10,300	\$11,540	\$12,165	\$12,165	\$12,475	\$12,475	\$126,000
6	Total Sales:		\$13,730	\$14,700	\$14,600	\$14,400	\$15,750	\$17,300	\$19,940	\$22,765	\$23,465	\$23,775	\$22,075	\$216,000
7														
8	Cost of Materials	\$9,885	\$9,720	\$10,584	\$10,512	\$10,368	\$11,340	\$12,456	\$14,357	\$16,391	\$16,895	\$17,118	\$15,894	\$155,520
9	Variable Labor									\$604	\$796	\$796	\$604	\$2,800
10	Cost of Goods Sold	\$9,885	\$9,720	\$10,584	\$10,512	\$10,368	\$11,340	\$12,456	\$14,357	\$16,995	\$17,691	\$17,914	\$16,498	\$158,320
11														
12	Gross Margin	\$3,845	\$3,780	\$4,116	\$4,098	\$4,032	\$4,410	\$4,844	\$5,583	\$5,770	\$5,774	\$5,861	\$5,577	\$57,690
13														
14	Operating Expenses													
15	Utilities	\$160	\$165	\$180	\$200	\$200	\$180	\$170	\$165	\$185	\$185	\$185	\$185	\$2,160
16	Salaries	\$1,900	\$1,900	\$1,900	\$1,900	\$1,900	\$1,900	\$1,900	\$1,900	\$1,900	\$1,900	\$1,900	\$1,900	\$22,800
17	Payroll Taxes and Benefits	\$237	\$238	\$237	\$238	\$237	\$238	\$237	\$238	\$237	\$238	\$237	\$238	\$2,850
18	Advertising	\$450	\$450	\$450	\$450	\$450	\$450	\$4,605	\$450	\$450	\$450	\$450	\$450	\$9,555
19	Office Supplies	\$25	\$25	\$25	\$25	\$25	\$25	\$25	\$25	\$25	\$25	\$25	\$25	\$300
20	Insurance	\$70	\$70	\$70	\$110	\$110	\$110	\$110	\$110	\$110	\$110	\$110	\$110	\$1,200
21	Maintenance and Cleaning	\$25	\$25	\$25	\$25	\$25	\$25	\$25	\$25	\$25	\$25	\$25	\$25	\$300
22	Legal and Accounting	\$125	\$125	\$125	\$125	\$125	\$125	\$125	\$125	\$125	\$125	\$125	\$125	\$1,500
23	Delivery Expenses	\$150	\$150	\$150	\$150	\$150	\$150	\$150	\$150	\$150	\$150	\$150	\$150	\$1,800
24	Licenses	\$9	\$9	\$9	\$9	\$9	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$115
25	Boxes, Paper, etc.	\$15	\$15	\$15	\$15	\$20	\$35	\$40	\$45	\$50	\$50	\$50	\$50	\$400
26	Telephone	\$85	\$85	\$85	\$85	\$85	\$85	\$85	\$85	\$85	\$85	\$85	\$85	\$1,020
27	Depreciation	\$0	\$0	\$0	\$455	\$460	\$460	\$1,050	\$1,055	\$1,055	\$1,055	\$1,055	\$1,055	\$7,700
28	Miscellaneous													\$0
29	Rent	\$550	\$550	\$550	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$1,650	\$3,300
30	Total Operating Expenses:	\$3,841	\$3,847	\$3,861	\$3,827	\$3,836	\$3,833	\$8,572	\$4,423	\$4,447	\$4,448	\$4,447	\$4,448	\$53,830
31														\$0
32	Other Expenses													\$0
33	Interest (Mortgage)	\$0	\$0	\$0	\$695	\$695	\$696	\$695	\$695	\$696	\$695	\$695	\$696	\$6,258
34	Interest (Term Loan)	\$0	\$0	\$0	\$0	\$0	\$0	\$272	\$272	\$272	\$272	\$272	\$272	\$1,632
35	Interest (Credit Line)	\$0	\$85	\$85	\$0	\$0	\$0	\$0	\$0	\$165	\$165	\$0	\$0	\$500
36	Total Other Expenses:	\$0	\$85	\$85	\$695	\$695	\$696	\$967	\$967	\$1,133	\$1,132	\$967	\$968	\$8,390
37	Total Expenses:	\$3,841	\$3,932	\$3,946	\$4,522	\$4,531	\$4,529	\$9,539	\$5,390	\$5,580	\$5,580	\$5,414	\$5,416	\$62,220
38														\$0
39	Net Profit (Loss) Pre-Tax:	\$4	(\$152)	\$170	(\$434)	(\$499)	(\$119)	(\$4,695)	\$193	\$190	\$194	\$447	\$161	(\$4,540)
40								Cumulative						
41								Loss:						
42								(\$5,725)						
43								Low Point						

This spreadsheet was prepared using the Excel spreadsheet program from Microsoft.®

Income Projection by Quarter, Year Two

	A	B	C	D	E	F
1		1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	Total
2						
3	Sales					
4	Wholesale	\$38,900	\$54,800	\$76,500	\$94,800	\$265,000
5	Retail	\$41,000	\$37,400	\$48,600	\$53,000	\$180,000
6	Total Sales:	\$79,900	\$92,200	\$125,100	\$147,800	\$445,000
7						
8	Cost of Materials	\$57,528	\$66,384	\$90,072	\$106,416	\$320,400
9	Variable Labor	\$0	\$0	\$604	\$2,196	\$2,800
10	Cost of Goods Sold	\$57,528	\$66,384	\$90,676	\$108,612	\$323,200
11						
12	Gross Margin	\$22,372	\$25,816	\$34,424	\$39,188	\$121,800
13						
14	Operating Expenses					
15	Utilities	\$660	\$660	\$660	\$660	\$2,640
16	Salaries	\$9,750	\$9,750	\$9,750	\$9,750	\$39,000
17	Payroll Taxes and Benefits	\$1,218	\$1,218	\$1,219	\$1,220	\$4,875
18	Advertising	\$2,000	\$2,305	\$3,125	\$3,695	\$11,125
19	Office Supplies	\$90	\$90	\$90	\$90	\$360
20	Insurance	\$950	\$950	\$950	\$950	\$3,800
21	Maintenance and Cleaning	\$90	\$90	\$90	\$90	\$360
22	Legal and Accounting	\$500	\$500	\$500	\$500	\$2,000
23	Delivery Expenses	\$1,598	\$1,844	\$2,502	\$2,956	\$8,900
24	Licenses	\$25	\$30	\$30	\$30	\$115
25	Boxes, Paper, etc.	\$150	\$175	\$225	\$250	\$800
26	Telephone	\$450	\$450	\$450	\$450	\$1,800
27	Depreciation	\$3,125	\$3,125	\$3,125	\$3,125	\$12,500
28	Miscellaneous	\$150	\$150	\$150	\$150	\$600
29	Rent					
30	Total Operating Expenses:	\$20,756	\$21,337	\$22,866	\$23,916	\$88,875
31						
32	Other Expenses					\$0
33	Interest (Mortgage)	\$2,070	\$2,070	\$2,070	\$2,070	\$8,280
34	Interest (Term Loan)	\$798	\$798	\$797	\$796	\$3,189
35	Interest (Line of Credit)			\$140	\$360	\$500
36	Total Other Expenses:	\$2,868	\$2,868	\$3,007	\$3,226	\$11,969
37	Total Expenses:	\$23,624	\$24,205	\$25,873	\$27,142	\$100,844
38						
39	Net Profit (Loss) Pre-Tax:	(\$1,252)	\$1,611	\$8,551	\$12,046	\$20,956

This spreadsheet was prepared using the Excel spreadsheet program from Microsoft.®

Income Projection by Quarter, Year Three

	A	B	C	D	E	F
1		1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	Total
2						
3	Sales					
4	Wholesale	\$58,750	\$55,000	\$97,500	\$113,750	\$325,000
5	Retail	\$47,400	\$43,600	\$56,000	\$63,000	\$210,000
6	Total Sales:	\$106,150	\$98,600	\$153,500	\$176,750	\$535,000
7						
8	Cost of Materials	\$76,428	\$70,992	\$110,520	\$127,260	\$385,200
9	Variable Labor	\$0	\$0	\$1,622	\$5,898	\$7,520
10	Cost of Goods Sold	\$76,428	\$70,992	\$112,142	\$133,158	\$392,720
11						
12	Gross Margin	\$29,722	\$27,608	\$41,358	\$43,592	\$142,280
13						
14	Operating Expenses					
15	Utilities	\$720	\$720	\$720	\$720	\$2,880
16	Salaries	\$11,700	\$11,700	\$11,700	\$11,700	\$46,800
17	Payroll Taxes and Benefits	\$1,462	\$1,462	\$1,463	\$1,463	\$5,850
18	Advertising	\$2,655	\$2,465	\$3,835	\$4,420	\$13,375
19	Office Supplies	\$120	\$120	\$120	\$120	\$480
20	Insurance	\$1,025	\$1,025	\$1,025	\$1,025	\$4,100
21	Maintenance and Cleaning	\$105	\$105	\$105	\$105	\$420
22	Legal and Accounting	\$625	\$625	\$625	\$625	\$2,500
23	Delivery Expenses	\$1,805	\$1,675	\$2,610	\$3,010	\$9,100
24	Licenses	\$25	\$30	\$30	\$30	\$115
25	Boxes, Paper, etc.	\$200	\$200	\$350	\$450	\$1,200
26	Telephone	\$600	\$600	\$600	\$600	\$2,400
27	Depreciation	\$3,125	\$3,125	\$3,125	\$3,125	\$12,500
28	Miscellaneous	\$180	\$180	\$180	\$180	\$720
29	Rent					
30	Total Operating Expenses:	\$24,347	\$24,032	\$26,488	\$27,573	\$102,440
31						
32	Other Expenses					
33	Interest (Mortgage)	\$2,013	\$2,013	\$2,013	\$2,013	\$8,052
34	Interest (Term Loan)	\$725	\$725	\$725	\$725	\$2,900
35	Interest (Line of Credit)			\$140	\$360	\$500
36	Total: Other Expenses	\$2,738	\$2,738	\$2,878	\$3,098	\$11,452
37	Total Expenses:	\$27,085	\$26,770	\$29,366	\$30,671	\$113,892
38						
39	Net Profit (Loss) Pre-Tax:	\$2,637	\$838	\$11,992	\$12,921	\$28,388

This spreadsheet was prepared using the Excel spreadsheet program from Microsoft.®

Income Projection: Three-Year Summary

	A	B	C	D
1		Year 1	Year 2	Year 3
2				
3	Sales			
4	Wholesale	\$90,000	\$265,000	\$325,000
5	Retail	\$126,000	\$180,000	\$210,000
6	Total Sales:	\$216,000	\$445,000	\$535,000
7				
8	V* Cost of Materials	\$155,520	\$320,400	\$385,200
9	V Variable Labor	\$2,800	\$2,800	\$7,520
10	Cost of Goods Sold	\$158,320	\$323,200	\$392,720
11				
12	Gross Margin	\$57,680	\$121,800	\$142,280
13				
14	Operating Expenses			
15	F Utilities	\$2,160	\$2,640	\$2,880
16	F Salaries	\$22,800	\$39,000	\$46,800
17	V/F Payroll Taxes and Benefits	\$2,850	\$4,875	\$5,850
18	F Advertising	\$9,555	\$11,125	\$13,375
19	F Office Supplies	\$300	\$360	\$480
20	F Insurance	\$1,200	\$3,800	\$4,100
21	F Maintenance and Cleaning	\$300	\$360	\$420
22	F Legal and Accounting	\$1,500	\$2,000	\$2,500
23	V/F Delivery Expenses	\$1,800	\$8,900	\$9,100
24	F Licenses	\$115	\$115	\$115
25	V/F Boxes, Paper, etc.	\$400	\$800	\$1,200
26	F Telephone	\$1,020	\$1,800	\$2,400
27	F Depreciation	\$7,700	\$12,500	\$12,500
28	F Miscellaneous	\$480	\$600	\$720
29	F Rent	\$1,650	\$0	\$0
30	Total Operating Expenses:	\$53,830	\$88,875	\$102,440
31				
32	Other Expenses			
33	Interest (Mortgage)	\$6,258	\$8,280	\$8,052
34	Interest (Term Loan)	\$1,632	\$3,189	\$2,900
35	Interest (Line of Credit)	\$500	\$500	\$500
36	Total Other Expenses:	\$8,390	\$11,969	\$11,452
37	Total Expenses:	\$62,220	\$100,844	\$113,892
38				
39	Net Profit (Loss) Pre-Tax	(\$4,540)	\$20,956	\$28,388
40				
41	*V=Variable Cost, F=Fixed Cost			

This spreadsheet was prepared using the Excel spreadsheet program from Microsoft.®

The degree of pessimism you should build into a projection is a matter of judgment.

Explanation for Income Statement Projections

This section will:

- A. Explain how the figures on the projection were calculated.
- B. Detail the assumptions which were made. Numerical references have been made by line—for example, (21) Maintenance and Cleaning.

(3) **Sales** include sales of seafood and ancillary products such as seasonings, sauces, baitbags, bait. In the future, some tourist items may be included.

(4) **Wholesale** and (5) **Retail**. Finestkind plans to service the wholesale trade more extensively than is shown here, although the trend has been built into the calculations. Due to a major marketing effort [see (18) **Advertising** below], wholesale sales should increase to 60% of gross sales within two years. Retail sales are expected to be more volatile than the wholesale business, leveling off around \$20,000/month due to space restrictions. Volatility is seasonal, building from late March to a late summer peak. The increases shown in (4) **Wholesale** are based both on the greater number of restaurants open in the summer and the intense marketing efforts, planned for the winter months, to sell directly to the many restaurants which don't yet know Finestkind. Wholesale sales for September of the preceding year were \$9,600, so these figures are perhaps more conservative than they need to be.

(4) **Wholesale** in Years Two and Three follow the same pattern as Year One (seasonality) but start at \$10,000/October Year Two as the result of advertising and marketing efforts, longer experience with the wholesale market, and greater exposure to the market. Year Three is a bit more seasonal, reflecting a flattening out of the sales curve.

The degree of pessimism you should build into a projection is a matter of judgment. Some is good; too much can be bad, as it will distort a reasonably good game plan and make a realistic deal look too risky.

(6) **Total Sales**. (4) plus (5).

(8) **Cost of Materials**. Finestkind's inventory has an average cost of 68% of sales (including a start-up spoilage rate of 5% which has been reduced to under 1% of sales), and has been calculated as 72% of sales to allow for the fluctuation of dockside prices during the winter.

(9) **Variable Labor**. In Years One and Two, two part-time summer helpers will be needed: a counter person at \$4/hour for 16 hours/week for 10 weeks, and a fish cutter at \$6.75/hour for 20 hours/week for 16 weeks. In Year Three, two full-time counter helpers and a full-time cutter will be needed for 10 and 16 weeks, respectively.

(10) **Cost of Goods Sold**. (8) plus (9).

(12) **Gross Margin**. (6) minus (10).

(14) Operating Expenses. These are (by and large) the fixed expenses, those which don't vary directly with sales levels. Keeping control of operating expenses is immensely important and easily overlooked, perhaps because so much emphasis is placed on generating sales. A profitable business needs to control costs and maintain (or increase) sales.

(15) Utilities. Prorated by agreement with the utility companies. Goes from \$165/month (Year One) to \$220 to \$240 in Year Three. It will probably change as new equipment and better insulation are installed.

(16) Salaries.

Year One: \$950/month for Gosling and Swan
Year Two: \$1,200/month for Gosling and Swan
\$850/month for a full-time employee
Year Three: \$1,500/month for Gosling and Swan
\$900/month (\$50/month raise) for employee

Salaries are lower than Finestkind would pay for a professional manager in order to preserve scarce capital (they are undercapitalized, and the salaries reflect "sweat equity"). As the business grows, they hope to take annual bonuses based on profits—after capital needs are met.

(17) Payroll Taxes and Benefits. 12.5% of (16). This is low; in many businesses fringe benefits alone are over 25% of salaries. In a small business, benefits are more often than not skimpy.

(18) Advertising. Local newspaper and radio spots. This is an expense that Finestkind might profitably increase. They reason (correctly) that a consistent, though modest, campaign will be more productive than sporadic, intensive promotions. The advertising budget is 2.5% of (6) Total Sales. In Year One, a large one-time promotional blitz will be made in April to build off-season wholesale business.

(20) Insurance. Includes liability, workers compensation, vehicle and other normal forms of insurance. As the business can afford it, they will add key-man disability to the life insurance coverage. Year Two reflects the increase in workers comp and the property insurances.

(21) Maintenance and Cleaning. Mainly supplies—a food market must meet stringent health codes.

(22) Legal and Accounting. Retainers to attorney and accountant, used to smooth out cash flow. Otherwise occasional large bills would distort monthly income projection figures, even though the use of these services is spread evenly over the year.

(23) Delivery Expenses. Delivery of merchandise to restaurants and other markets. Year Two: 2% of total sales; Year Three: 1.7%. As the wholesale business increases, route efficiency should also increase, causing delivery expenses as a percentage of sales to decrease.

Keeping control of operating expenses is immensely important and easily overlooked, perhaps because so much emphasis is placed on generating sales.

As one banker puts it, "There is no such thing as a pre-tax profit."

(24) **Licenses.** Required by state and local authorities.

(25) **Boxes, Paper, etc.** Packaging supplies, which are a semi-fixed expense.

(26) **Telephone.** Needed for sales, pricing, contacting suppliers and markets.

(27) **Depreciation.** Five-year, straight-line on equipment (beginning April, Year One); straight-line 19 years on building (beginning January, Year One). These are based on the assumption that 1/5 and 1/19 respectively will be "used up" in the normal course of doing business. Some businesses try to set this sum aside as a replacement fund.

(28) **Miscellaneous.** Operating expenses too small to be itemized.

(29) **Rent.** Applicable for three months in Year One; will be replaced by (33) Mortgage Interest on the income statement. The principal payments show up on the cash flow projections as part of mortgage payments. (The \$876/month includes both principal and interest. Principal payments on loans do not appear as income statement items.)

(30) **Total Operating Expenses.** Sum of (15) through (29).

(32) **Other Expenses.** Non-operating costs are broken out to give them special prominence.

(33) **Interest (Mortgage).** \$75,000 mortgage for 15 years at 11.5%. This is a normal term and interest rate for commercial buildings at this time. More than 15 years is rare.

(34) **Interest (Term Loan).** \$30,000 loan for seven years at 12.25%. A rule of thumb: The longer the term, the higher the risk to the bank—so the higher the interest rate to you.

(35) **Interest (Credit Line).** Estimated use of line: average of \$7,500 outstanding for six months a year at 13.5%. Lines of credit are not intended to replace permanent capital or long-term credit needs.

(36) **Total Other Expenses.** Sum of (33), (34), (35).

(37) **Total Expenses.** Sum of (30) and (36).

(39) **Net Profit (Loss) Pre-Tax.** (12) Gross Margin minus (37) Total Expenses. On this statement (and the other projections) a tax liability should be imputed. We left that liability off as it will vary from one state to another and with the legal structure of your business. Make sure to check with your accountant to arrive at a true net profit (loss) figure. As one banker puts it, "There is no such thing as a pre-tax profit."

Finestkind does not expect to make much money for the first few years. This is no surprise for a business so thinly capitalized. Even if there were no debt at all, net profit would have been only \$8,000 for the year, or less than 4% of sales.

This is a projection based on conservative figures. In their more optimistic moments, Gosling and Swan hope to hold fixed costs to \$4,500/month, not the \$5,200 projected, and increase sales 12.5%. Their budgeted net profit would be around \$18,000, not the projected loss of \$4,540. If their gross margin were to continue at 30% of sales, not the 28% projected, their net profit would be over \$18,000, their "best-case" assumption.

One item which should be mentioned again is rent. The cost of space appears on the cash flow as mortgage (\$876/month). Another is loan amortization, which also appears on the cash flow as term loan (\$534/month). These include interest and debt retirement, which are not expenses since they are for capital improvements that will be written off as "depreciation expense" over the course of several years. It is important not to double-deduct expenses: Such a practice is not only illegal but also obscures the information about your business.

Information is the most valuable result of financial statements. Accurate, timely information helps you run your business.

Information is the most valuable result of financial statements.

F. Cash Flow Projection

The cash flow projection can make the difference between success and failure, and between growth and stagnation.

The cash flow projection is the most important financial planning tool available to you. If you were limited to one financial statement (which fortunately isn't the case), the Cash Flow Projection would be the one to choose.

For a new or growing business, the cash flow projection can make the difference between success and failure. For an ongoing business, it can make the difference between growth and stagnation.

Your Cash Flow analysis will:

1. Show you how much cash your business will need;
2. When it will be needed;
3. Whether you should look for equity, debt, operating profits, or sale of fixed assets; and
4. Where the cash will come from.

The cash flow projection attempts to budget the cash needs of a business and shows how cash will flow in and out of the business over a stated period of time. Cash flows into the business from sales, collection of receivables, capital injections, etc., and flows out through cash payments for expenses of all kinds.

This financial tool emphasizes the points in your calendar when money will be coming into and going out of your business. The advantage of knowing when cash outlays must be made is the ability to plan for those outlays and not be forced to resort to unexpected borrowing to meet cash needs. Illiquidity is a killer, even for profitable businesses. Lack of profits won't kill a business (non-cash expenses such as depreciation can make your profits look negative, while your cash flow is positive). Lack of cash to meet your trade and other payables will.

If you project your cash flow for the near to intermediate future, you can see the effect of a loan to your business far more clearly than from the income statement. You may be able to find ways to finance your business operations or minimize your credit needs to keep interest expense down. Many of the advantages of studying the cash flow projection stem from timing: More options are available to you, at lower costs, with less panic.

Cash is generated primarily by sales. However, not all sales are cash sales. Perhaps your business is all cash—but if you offer any credit (charge accounts, term payments, trade credit) to your customers, you need to have a means of telling when those credit sales will turn into cash-in-hand. This is blurred in the income statement, but made very clear by the cash flow. Your business may be subject to seasonal bills, and again, a cash flow makes the liquidity problems attending such large, occasional expenses clear.

A cash flow deals only with actual cash transactions. Depreciation, a non-cash expense, does not appear on a cash flow. Loan repayments (including interest), on the other hand, do, since they represent a cash disbursement.

After it has been developed, use your cash flow projections as a budget. If the cash outlays for a given item increase over the amount allotted for a given month, you should find out why and take corrective action as soon as possible. If the figure is lower, you should also find out why. If the cash outlay is lower than expected, it is not necessarily a good sign. Maybe a bill wasn't paid. By reviewing the movement of your cash position you can better control your business.

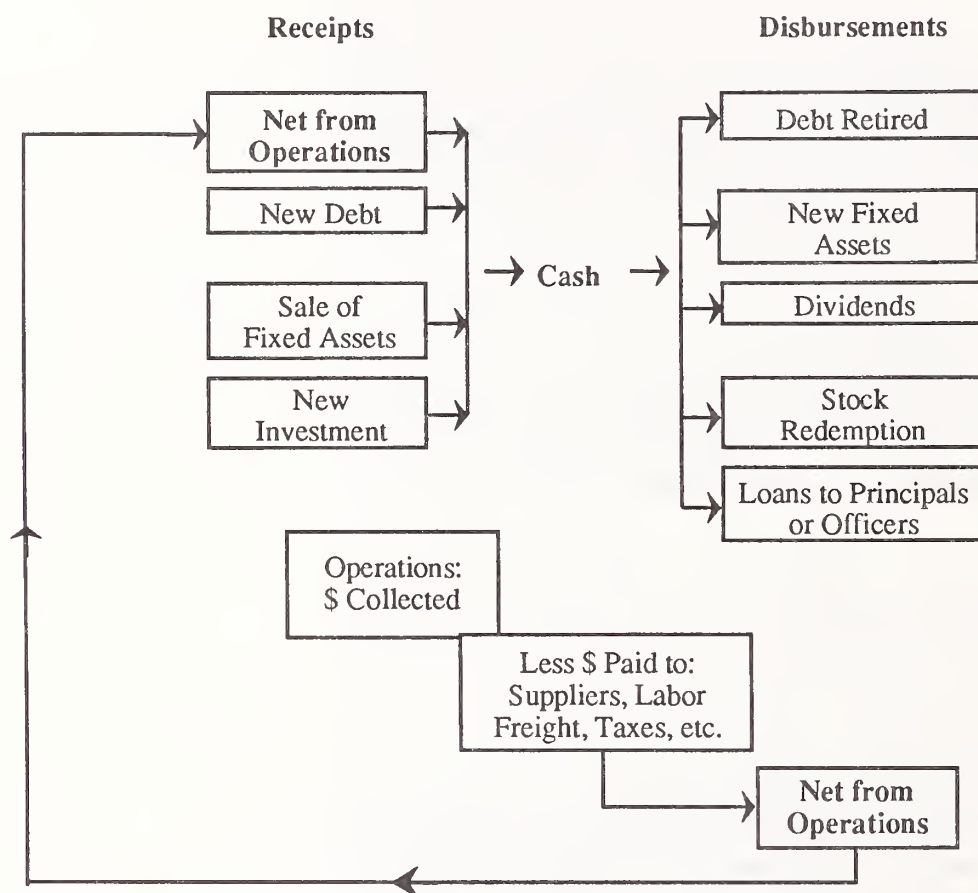
On a more positive note, the savings may tip you off to a new way of economizing. Discrepancies between expected and actual cash flows are indicators of opportunities as well as problems. If the sales figures don't match the cash flow projections, look for the cause. Maybe projections were too low. Maybe you've opened a new market, or introduced a new product that can be pushed even harder.

Use the Cash Flow Sketch on the next page to make sure you don't omit any ordinary cash flow item. But be sure to add any items that are peculiar to your business.

The level of detail you wish to provide is another judgment call. You may want to provide much more detail than is shown in these examples—for example, you might benefit from breaking down your cash flow into a series of cash flows, each representing one profit center or other business unit. This can be particularly handy if you have more than one source of revenue, or if you are a manufacturer and need to prepare numerous bids. The accumulated information gained by several projections can be very valuable.

Cash flow projections lend themselves to computerization. Spreadsheet programs such as Lotus 1-2-3™ or Excel™ (among others) are made even more valuable because you can tie in graphic displays to your hard numbers, link together several different financial statements, or play “what-if” with much greater speed and accuracy than was possible when we were limited to pencils, adding machines, 13-column accounting paper and erasers.

Cash Flow Management Sketch



Cash Flow Sketch

- | | |
|--|--|
| 1. Cash at Beginning of Period | 21. Utilities |
| Add Revenues, etc.: | 22. Telephone |
| 2. Sales of products (cash) | 23. Heat, light, power |
| 3. Sales of products (receivables collected) | 24. Advertising |
| 4. Cash received from assets sold | 25. Principal and interest on debt |
| 5. Cash received from equity investment | 26. Transportation |
| 6. Cash received from loans | 27. Oil, gas |
| 7. Cash received from bad debt recovery | 28. Vehicle maintenance |
| 8. Miscellaneous cash received | 29. Tires |
| Total: Cash Received | 30. Freight |
| Subtract: Cash Disbursements | 31. Provision for bad debts (if funded with cash) |
| 9. New inventory purchased for cash | 32. Taxes payable |
| 10. Salaries/wages | 33. Income (state, federal, other if applicable) |
| 11. FICA, federal and state withholding tax | 34. Property |
| 12. Fringe benefits paid | 35. Excise |
| 13. New equipment to be purchased for cash | 36. Sales taxes (if applicable) |
| 14. Processing equipment | 37. Dividends paid, cash withdrawal by partner, or contribution to profit-sharing plan |
| 15. Office, sales equipment | 38. Provision for unforeseen circumstances (if funded) |
| 16. Transportation equipment | 39. Provision for replacement of depreciable assets (if funded) |
| 17. Insurance premiums | |
| 18. Fees | |
| 19. Accounting | |
| 20. Legal | |
| | Total Cash Received Less Total Disbursements Equals Cash at End of Period |

Note: Only cash disbursements are included. These are actual dollars that you pay out, not obligations that you incur now to be paid off at some future date. Those appear on the income projection and balance sheet.

Cash Flow Projection by Month, Year One

A	B	C	D	E	F	G	H	I	J	K	L	M	N
	October	November	December	January	February	March	April	May	June	July	August	September	Total
1													
2	Cash Receipts												
3	Sales Receivables	\$2,000	\$1,350	\$1,750	\$1,850	\$2,000	\$2,300	\$2,300	\$2,800	\$3,500	\$3,750	\$3,750	\$28,700
4	Wholesale	\$2,650	\$2,650	\$3,750	\$4,000	\$4,700	\$4,700	\$5,600	\$7,100	\$7,550	\$7,550	\$6,400	\$60,100
5	Retail	\$9,730	\$9,500	\$9,500	\$8,400	\$8,750	\$10,300	\$11,540	\$12,165	\$12,165	\$12,475	\$12,475	\$126,000
6	Other Sources (see notes)	\$7,500	\$7,500	\$105,000			\$30,000		\$15,000				\$165,000
7	Total Cash Receipts:	\$21,880	\$21,000	\$119,500	\$14,250	\$15,450	\$47,300	\$19,440	\$37,065	\$23,215	\$23,775	\$22,625	\$379,800
8	Cash Disbursements												\$0
9	Cost of Goods	\$9,885	\$9,720	\$10,584	\$10,512	\$11,340	\$12,456	\$14,357	\$16,391	\$16,895	\$17,118	\$15,894	\$155,520
10	Variable Labor								\$604	\$796	\$796	\$604	\$2,800
11	Advertising	\$1,000	\$400	\$400	\$400	\$400	\$4,555	\$400	\$400	\$400	\$400	\$400	\$9,555
12	Insurance		\$300		\$300			\$300			\$300		\$1,200
13	Legal and Accounting			\$375		\$375			\$375			\$375	\$1,500
14	Delivery Expenses	\$75	\$75	\$75	\$100	\$100	\$150	\$200	\$200	\$250	\$250	\$250	\$1,800
15	Fixed Cash Disbursements*	\$2,535	\$2,535	\$2,535	\$2,535	\$2,535	\$2,535	\$2,535	\$2,535	\$2,535	\$2,535	\$2,540	\$30,425
16	Mortgage (rent)	\$550	\$550	\$550	\$876	\$876	\$876	\$876	\$876	\$876	\$876	\$876	\$9,534
17	Term Loan						\$534	\$534	\$534	\$534	\$534	\$534	\$3,204
18	Line of Credit		\$85	\$15,085					\$165	\$165	\$15,000		\$30,500
19	Other (see notes)				\$105,000	\$30,000							\$135,000
20	Total Cash Disbursements:	\$14,045	\$13,665	\$29,604	\$119,423	\$45,626	\$21,106	\$19,202	\$22,080	\$22,451	\$37,809	\$21,473	\$381,038
21													
22	Net Cash Flow:	\$7,835	\$7,335	(\$15,304)	\$77	(\$304)	\$26,194	\$238	\$14,985	\$764	(\$14,034)	\$1,152	(\$1,238)
23													
24	Cumulative Cash Flow:	\$7,835	\$15,170	(\$134)	(\$57)	(\$361)	(\$4,343)	(\$4,105)	\$10,880	\$11,644	(\$2,390)	(\$1,238)	
25													
26	*Fixed Cash Disbursements (FCD)												
27	Utilities	\$2,160											
28	Salaries	\$22,800											
29	Payroll Taxes and Benefits	\$2,850											
30	Office Supplies	\$300											
31	Maintenance and Cleaning	\$300											
32	Licenses	\$115											
33	Boxes, Paper, etc.	\$400											
34	Telephone	\$1,020											
35	Miscellaneous	\$486											
36	Total: FCD/vr	\$30,425											
37	FCD/mo	\$2,535											
38													
39	Cash on Hand												
40	Opening Balance	\$2,150	\$9,905	\$17,240	\$1,936	\$2,013	\$1,709	(\$28,467)	(\$2,035)	\$12,950	\$13,714	(\$320)	
41	+ Cash Receipts	\$21,800	\$21,000	\$14,300	\$119,500	\$14,250	\$15,450	\$47,300	\$37,065	\$23,215	\$23,775	\$22,625	\$379,800
42	- Cash Disbursements	\$14,045	\$13,665	\$29,604	\$119,423	\$14,554	\$45,626	\$21,106	\$22,080	\$22,451	\$37,809	\$21,473	\$381,038
43	Total=New Balance:	\$9,905	\$17,240	\$1,936	\$2,013	\$1,709	(\$28,467)	(\$2,035)	\$12,950	\$13,714	(\$320)	\$832	

This spreadsheet was prepared using the Excel spreadsheet program from Microsoft.®

Cash Flow Projection by Quarter, Year Two

	A	B	C	D	E	F
1		1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	Total
2	Cash Receipts					
3	Receivables	\$3,200				\$3,200
4	Wholesale	\$38,900	\$54,800	\$76,500	\$94,800	\$265,000
5	Retail	\$41,000	\$37,400	\$48,600	\$53,000	\$180,000
6	Other Sources			\$12,000	\$15,000	\$27,000
7	Total Cash Receipts:	\$83,100	\$92,200	\$137,100	\$162,800	\$475,200
8	Cash Disbursements					
9	Cost of Goods	\$57,528	\$66,384	\$90,072	\$106,416	\$320,400
10	Variable Labor			\$604	\$2,196	\$2,800
11	Advertising	\$2,000	\$2,305	\$3,125	\$3,695	\$11,125
12	Insurance	\$950	\$950	\$950	\$950	\$3,800
13	Legal and Accounting	\$500	\$500	\$500	\$500	\$2,000
14	Delivery Expenses	\$1,600	\$1,844	\$2,500	\$2,956	\$8,900
15	*Fixed Cash Disbursements	\$12,630	\$12,640	\$12,640	\$12,640	\$50,550
16	Mortgage (rent)	\$2,628	\$2,628	\$2,628	\$2,628	\$10,512
17	Term Loan	\$1,602	\$1,602	\$1,602	\$1,602	\$6,408
18	Line of Credit			\$12,140	\$15,360	\$27,500
19	Other (see notes)					
20	Total Cash Disbursements:	\$79,438	\$88,853	\$126,761	\$148,943	\$443,995
21						
22	Net Cash Flow:	\$3,662	\$3,347	\$10,339	\$13,857	\$31,205
23						
24	Cumulative Cash Flow:	\$2,424	\$5,771	\$16,110	\$29,967	\$54,272
25						
26	*Fixed Cash Disbursement					
27	(FCD)	Year Two				
28	Utilities	\$2,640				
29	Salaries	\$39,000				
30	Payroll Taxes and Benefits	\$4,875				
31	Office Supplies	\$360				
32	Maintenance and Cleaning	\$360				
33	Licenses	\$115				
34	Boxes, Paper, etc.	\$800				
35	Telephone	\$1,800				
36	Miscellaneous	\$600				
37	Total: FCD/yr	\$50,550				
38	FCD/qtr	\$12,638				

This spreadsheet was prepared using the Excel spreadsheet program from Microsoft.®

Cash Flow Projection by Quarter, Year Three

	A	B	C	D	E	F
1		1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	Total
2	Cash Receipts					
3	Receivables					\$325,000
4	Wholesale	\$58,750	\$55,000	\$97,500	\$113,750	\$325,000
5	Retail	\$47,400	\$43,600	\$56,000	\$63,000	\$210,000
6	Other Sources			\$12,000	\$15,000	\$27,000
7	Total Cash Receipts:	\$106,150	\$98,600	\$165,500	\$191,750	\$562,000
8	Cash Disbursements					
9	Cost of Goods	\$76,428	\$70,992	\$110,520	\$127,260	\$385,200
10	Variable Labor			\$1,622	\$5,898	\$7,520
11	Advertising	\$2,655	\$2,465	\$3,835	\$4,420	\$13,375
12	Insurance	\$1,025	\$1,025	\$1,025	\$1,025	\$4,100
13	Legal and Accounting	\$625	\$625	\$625	\$625	\$2,500
14	Delivery Expenses	\$1,805	\$1,675	\$2,610	\$3,010	\$9,100
15	*Fixed Cash Disbursements	\$15,215	\$15,215	\$15,215	\$15,220	\$60,865
16	Mortgage (rent)	\$2,628	\$2,628	\$2,628	\$2,628	\$10,512
17	Term Loan	\$1,602	\$1,602	\$1,602	\$1,602	\$6,408
18	Line of Credit			\$12,140	\$15,360	\$27,500
19	Other (see notes)					
20	Total Cash Disbursements:	\$101,983	\$96,227	\$151,822	\$177,048	\$527,080
21						
22	Net Cash Flow:	\$4,167	\$2,373	\$13,678	\$14,702	\$34,920
23						
24	Cumulative Cash Flow:	\$2,424	\$4,797	\$18,475	\$33,177	\$58,873
25						
26	*Fixed Cash Disbursement					
27	(FCD)	Year Three				
28	Utilities	\$2,880				
29	Salaries	\$46,800				
30	Payroll Taxes and Benefits	\$5,850				
31	Office Supplies	\$480				
32	Maintenance and Cleaning	\$420				
33	Licenses	\$115				
34	Boxes, Paper, etc.	\$1,200				
35	Telephone	\$2,400				
36	Miscellaneous	\$720				
37	Total: FCD/yr	\$60,865				
38	FCD/qtr	\$15,216				

This spreadsheet was prepared using the Excel spreadsheet program from Microsoft.®

Explanation for Cash Flow Projections

The receipts shown on these cash flow projections include both sales and other cash sources to emphasize their impact on Finestkind. The cash flow projections show how business operations affect cash flow, so some people prefer to isolate "Other Sources" of cash receipts in the cash reconciliation section [lines (40)-(43) in the Year One Cash Flow Projection]. References are to line numbers on the accounting sheet unless otherwise noted.

(3) Sales Receivable. Sales are cash for retail, cash or 10-day net for wholesale accounts. If Finestkind provided longer terms, their cash flow could be significantly altered. As it is, the cash flow assumes a conservative 10-day lag on all wholesale sales. Since wholesale sales in September were \$6,000, \$2,000 (10/30 of September wholesale sales) turns to cash in October.

The same rationale applies to the rest of the year: One-third of wholesale receipts aren't collected until the following month.

The collection lag is not continued beyond the first quarter of Year Two. Experience will correct the cash flow, and new figures should be calculated for Year Two on a monthly basis for Year-Two business planning.

(4) Wholesale. Note the total of $\$28,700 + 60,100$ (Total Sales Receivable and Total Wholesale) = $\$88,800$, which is $\$1,200$ less than the projected sales of $\$90,000$ shown on the income statement. To reconcile the difference between these figures, note that $\$2,000$ in cash receipts come from September of the preceding year, while $\$3,200$ of cash receipts are postponed for September of Year One. Sales figures are based on the Income Projections on pages 65 to 67.

(5) Retail. See Income Projections on pages 64 to 67.

(6) Other Sources.

October: Inventory loan using credit line

November: Closing costs, using credit line

January: Purchase building; $\$30,000$ from Gosling and Swan as new equity investment, along with a $\$75,000$ mortgage

April: Equipment and building improvements, from term loan

June: Inventory loan, credit line

(7) Total. Cash Receipts are the sum of (3) + (4) + (5) + (6). Note that the total is distorted by loans and new investment.

(8) Cash Disbursements. These are the disbursements which will be made in cash (including checks) during the normal course of business plus any major anticipated cash outlays.

(9) Cost of Goods. From Income Projection on page 64, line 10.

(10) **Variable Labor.** From Income Projection on page 64, line 9.

(11) **Advertising.** Budgeted at \$400/month for the first year, plus an extra \$600 in September for a tourist-oriented ad campaign and an extra \$4,155 in April to an agency for the major wholesale marketing program, including implementation and execution.

(12) **Insurance.** Payable quarterly.

(13) **Legal and Accounting.** Payable quarterly.

(14) **Delivery Expenses.** Varies with volume of wholesale sales.

(15) **Fixed Cash Disbursements.** These are relatively independent of sales, so they are allocated evenly throughout the year. See display on lines (26) through (37) for details. If salaries fluctuate widely, break them out as a separate item with the other disbursements. For example, if you meet your payroll every other week, two months of the year will have three paydays rather than two, which can make those months look alarmingly costly.

(16) **Mortgage (rent).** Rent through December at \$550/month, mortgage payments (principal and interest) at \$876 thereafter.

(17) **Term Loan.** \$535/month for seven years, which includes principal and interest.

(18) **Line of Credit.** Includes principal repayment and interest.

(19) **Other.**

January: Purchase building

March: Equipment purchase and building improvements to be paid in full.

(20) **Total Cash Disbursements.** Sum of lines (9) through (19).

(22) **Net Cash Flow.** (7) minus (20).

(24) **Cumulative Cash Flow.** (22) + last month's (24). This sums up the net cash flow on a monthly basis, adding the present month's net cash flow to last month's cumulative cash flow. This is useful on a periodic basis (monthly or quarterly). Over a longer time, it's of academic interest only.

Some experts advise pushing a cash flow until the cumulative cash flow is consistently positive.

(39)—(43) **Cash Balance Reconciliation.** $(40) + (41) - (42) = (43)$. This display (for Year One only) may be used as a quick check on how well the budget is doing. For Years Two and Three, it is not accurate enough to be useful.

Further explanation of these cash flow items appear on the notes supporting the income projections.

Samples of Notes and Explanations for a Cash Flow Projection

Notes and Explanations for Finestkind Seafoods, Inc. Cash Flow Projection by Month, Year One

Further explanation of these cash flow items appears on the notes supporting the income projections, on pages 64 through 67.

(3) Sales Receivable. Our terms are cash retail, net 10 for wholesale accounts. Assumes 1/3 wholesale will turn to cash in the following month.

(4) Wholesale. See income projections for derivation of these figures.

(5) Retail. See income projections for derivation.

(6) Other Sources. October, November credit line, \$7,500; January \$75,000 mortgage and \$30,000 new equity from Swan and Gosling; April term loan for improvements and equipment, \$30,000; June inventory buildup, \$15,000 from credit line.

(9) Cost of Goods. 72% of current month sales [line (6) of income projections].

(10) Variable Labor. Part-time help from May to September to handle extra weekend tourist trade and extra seafood preparation.

(11) Advertising. \$1,000 initial burst, \$400/month thereafter. Add \$4,155 to April for wholesale marketing program.

(16) Mortgage. \$550/month rent to December, mortgage payments January on. Terms: \$75,000, 15 year, 11.5%.

(17) Term Loan. \$534/month payments scheduled for term loan. Terms: \$30,000, 7 year, 12.25%.

continued on next page

**Notes and Explanations for
Finestkind Seafoods, Inc.
Cash Flow Projection by Quarters
for Years Two and Three**

(3) **Receivables** turn from September, Year One. Since this is a quarterly summary, no further allowance will be made for receivables turn.

(6) **Other Sources.** \$12,000 for one month on line of credit third quarter, \$15,000 for nine weeks on line of credit fourth quarter to meet inventory needs.

(15) **Fixed Cash Disbursements.** Could have included mortgage and term loan payments, but to preserve parity with detail of Year One, loan payments are displayed separately.

(24) **Cumulative Cash Flow.** Subtract \$1,238 from net cash flow, first quarter Year Two, to reflect the total cumulative cash flow of Year One: (\$1,238).

(26) **Fixed Cash Disbursements.** From Income Projections.

You should notice that only the most important cash flow items are annotated. Such annotation helps you remember your thinking at some later time—and helps avoid repeating errors. It also makes your projections much more believable, since the numbers will be seen to have more foundation than guesswork.

Application of Funds Statement

This is a handy addition to your cash flow analysis. Your banker may be interested in a Source and Applications statement, which is a slightly more formal version—ask your CPA—but this is handy when you are looking at ways of financing major acquisitions.

Use of Funds	Total Amount Required:	From Equity:	From Loans:	From Other:
Acquire building	\$105,000	\$30,000	\$75,000	
Improve building	24,000		20,000	\$4,000
Equipment	10,000		10,000	

The next section, Deviation Analysis, takes a more formal approach to using a budget. It uses the cash flow and income statements to set up a red-flag system. If over a three- or six-month time period your projections are seriously off, take the time to understand why the deviations have happened before changing your projections and your business operations. Then make the changes—based on informed knowledge rather than hunch, a major reason to document your assumptions in your financial statements.

G. Deviation Analysis

Budget deviation analysis will help you hold down costs and increase profits.

For most small businesses, the cash flow projection for one year provides an adequate operating budget. You may want to break down some of the cash flow items more finely to insure greater control, but in any case the cash flow projection is the basis for your budgets.

While anyone can learn to stay within a budget, only the best managers can draw up budgets worth staying within. While a well-thought-out cash flow projection doesn't guarantee a good budget, you can be sure that a budget drawn up without such projections won't be worth following.

Budget deviation analysis (BDA) is a direct control on your business operations. It will help you hold down costs and increase profits at a time cost of about one evening per month. It is an essential tool and should not be ignored even if everything is going well.

BDA must be performed periodically, at least monthly, if it is to be effective. If you are engaged in a business with several concurrent projects, it may be more helpful to devise separate budgets and deviation analyses for each project. BDA provides one of the best sources of current information available to you. Use it. Done properly, it will tell you at a glance which parts of your business are out of control and which ones are exceeding expectations.

The next pages are BDA forms which you should modify to suit the particular needs of your business. Columns C and D are derived from actual and budgeted figures. Experience will tell you which deviations—and of what magnitude—are significant. Any deviation, positive or negative, should be carefully examined and the reasons for its existence understood. Next, corrective action should be taken (if the deviation is working against you), or the serendipitous improvement in performance should be exploited (if the deviation is in your favor).

For example, suppose that utilities, budgeted for \$200 in January, actually cost \$340. Why? The weather was exceptionally cold, insulation was installed towards the end of the month, and a broken skylight was replaced on February 1. The indicated action was to cut utilities expense as soon as possible (which was done). If close attention had not been paid to the utility bill, that cost could easily have gotten out of hand. Again, suppose sales were \$18,000 in January, not the anticipated (budgeted) \$14,600. What went right? Careful attention to a positive deviation can pay off in greatly increased profits.

Year-to-date BDA is another good financial tool. If more expenditures fall in one month than were expected, you will find a corresponding lowering of expenditures the preceding or following month. The year-to-date BDA helps to level out these swings. Used with the monthly BDAs, this form will save you some unnecessary arithmetic and worry, as well as check the accuracy and effectiveness of your projections. With experience, your budgeting will become more exact, affording you greater control over your business and profits.

As with the other control documents, you should adapt the suggested formats which follow to fit your business needs. Your accountant should be helpful here—but you have to be the person who decides what information should be reflected by BDA.

For example, a manufacturer might want to have more control over inventories of work in progress, returns, and some quality control figures. These can be provided—but are not shown in the examples. Ask your accountant to help; you should only add information if you have a way to check it out against actual performance, and that will often call for professional expertise. You have a business to run, after all, which is why you hire accountants rather than become one yourself.

You will also notice that “Column D: % Deviation” will magnify small numbers. If Maintenance and Cleaning is budgeted at \$25/month and comes in at \$50, the percentage deviation is 100%. This is deliberate. Large dollar deviations show up clearly in “Column C: Deviation” but small deviations can collectively become fairly large, and have a devastating cumulative effect on profits. This is another area where a bit of computer power takes the drudgery (and opportunities for error) out of repetitive monthly calculations. Set your tolerances. Then follow up on all significant deviations.

Small deviations can collectively become fairly large, and have a devastating cumulative effect on profits.

Budget Deviation Analysis by Month

From the Income Statement
For the Month of _____

	A Actual for Month	B Budget for Month	C Deviation (B-A)	D % Deviation (C/B x 100)
Sales				
Less Cost of Goods				
Gross Profit on Sales				
Operating Expenses:				
Variable Expenses				
Sales Salaries (commissions)				
Advertising				
Miscellaneous Variable				
Total Variable Expenses				
Fixed Expenses				
Utilities				
Salaries				
Payroll Taxes and Benefits				
Office Supplies				
Insurance				
Maintenance and Cleaning				
Legal and Accounting				
Delivery				
Licenses				
Boxes, Paper, etc.				
Telephone				
Miscellaneous				
Depreciation				
Interest				
Total Fixed Expenses				
Total Operating Expenses				
Net Profit (Gross Profit on Sales Less Total Operating Expenses)				
Tax Expense				
Net Profit After Taxes				

Budget Deviation Analysis Year-to-Date

From the Income Statement
Year-to-Date _____

	A Actual for Year-to-Date	B Budget for Year-to-Date	C Deviation (B-A)	D % Deviation (C/B x 100)
Sales				
Less Cost of Goods				
Gross Profit on Sales				
Operating Expenses:				
Variable Expenses				
Sales Salaries (commissions)				
Advertising				
Miscellaneous Variable				
Total Variable Expenses				
Fixed Expenses				
Utilities				
Salaries				
Payroll Taxes and Benefits				
Office Supplies				
Insurance				
Maintenance and Cleaning				
Legal and Accounting				
Delivery				
Licenses				
Boxes, Paper, etc.				
Telephone				
Miscellaneous				
Depreciation				
Interest				
Total Fixed Expenses				
Total Operating Expenses				
Net Profit (Gross Profit on Sales Less Total Operating Expenses)				
Tax Expense				
Net Profit After Taxes				

Calculations: A. Add current month actual to last month's year-to-date analysis.
B. Add current month budget to last month's year-to-date analysis.

Budget Deviation Analysis by Month

From the Cash Flow

For the Month of _____

	A Actual for Month	B Budget for Month	C Deviation (B-A)	D % Deviation (C/B x 100)
Beginning Cash Balance				
Add:				
Cash Sales				
Accounts Receivable That Have Turned to Cash				
Other Cash Inflows				
Total Available Cash				
Deduct Estimated Disbursements:				
Cost of Materials				
Variable Labor				
Advertising				
Insurance				
Legal and Accounting				
Delivery				
Equipment*				
Loan Payments				
Mortgage Payment				
Property Tax Expense				
Deduct Fixed Cash Disbursements:				
Utilities				
Salaries				
Payroll Taxes and Benefits				
Office Supplies				
Maintenance and Cleaning				
Licenses				
Boxes, Paper, etc.				
Telephone				
Miscellaneous				
Total Disbursements				
Ending Cash Balance				

*Equipment expense represents actual expenditures made for purchase of equipment.

Budget Deviation Analysis Year-to-Date

From the Cash Flow
Year-to-Date _____

	A Actual for Year-to-Date	B Budget for Year-to-Date	C Deviation (B-A)	D % Deviation (C/B x 100)
Beginning Cash Balance				
Add:				
Sales Revenue				
Other Revenue				
Total Available Cash				
Deduct Estimated Disbursements:				
Cost of Materials				
Variable Labor				
Advertising				
Insurance				
Legal and Accounting				
Delivery				
Equipment*				
Loan Payments				
Mortgage Payment				
Property Tax Expense				
Deduct Fixed Cash Disbursements:				
Utilities				
Salaries				
Payroll Taxes and Benefits				
Office Supplies				
Maintenance and Cleaning				
Licenses				
Boxes, Paper, etc.				
Telephone				
Miscellaneous				
Total Disbursements				
Ending Cash Balance				

Calculations: A. Add current month actual to last month's year-to-date analysis.

B. Add current month budget to last month's year-to-date analysis.

*Equipment expense represents actual expenditures made for purchase of equipment.

H. Historical Financial Reports

A record of what happened in the past is an integral part of your business plan.

A record of what happened in the past is an integral part of your business plan. For most business deals, balance sheets and income statements for the past three years are sufficient.

The third major component of your past financial records is tax statements. Since they must be filed at least annually, they provide a summary of what you earned, how you earned it, and what your deductible expenses were. If you decide to sell your business, these tax statements will be the most important substantiation of your asking price, and will surely be requested and examined by prospective purchasers.

If you don't yet have an accountant, go directly to the nearest IRS office at a time well in advance of payment day and go over your business records with one of their representatives. By doing so, you gain the benefit of free advice from experts and get an insight into the best ways to handle your business taxes. The IRS will even help you set up your recordkeeping system to minimize the problems of preparing tax returns.

The IRS is more concerned with helping businesses properly handle their financial responsibilities (taxes) than you may have thought. It makes their job easier. They provide a number of free tax seminars for small businesses which can be useful, especially if you are trying to handle your own taxes.

Tax records can be used as an additional source of information. For example, copies of wage and deduction statements help in making projections. Payroll records can help settle unemployment claims; they have a certain legal weight, especially in situations where it's your word against that of a disgruntled former employee.

Most business owners know that it pays to hire a competent accountant to handle taxes. The tax code has something like 40,000 pages, changes frequently, and contains so many boobytraps (for businesses as well as individuals) that it just doesn't make sense to try to do your returns yourself. Your job is making your business profitable. Your accountant's job is making sure that you don't pay more taxes than you are legally required to pay. And you can't do both jobs.

If you do not have clear, accurate and well-substantiated historical financial records, or if you have lied to minimize your tax liabilities, you have only cheated yourself. In the first case, you've only demonstrated your incompetence. In the second case, you've simply lowered the performance level of the business, thus making it a worse risk for a lender. Either way, it just isn't worth it.

I. Summary

Budgeting, balancing objectives with reality, then guiding your business to achieve your goals within the budget constraints, is a hard test of managerial ability.

With the exception of the historical financial reports, which reflect past management decisions, the Financial Data section stresses the importance of making and documenting careful assumptions about the objectives of your business as the first step in preparing financial projections.

Your income and cash-flow projections are the basis of your planning efforts. They help set up a series of objectives: At what level do you hit break-even? What are the budget items to monitor closely—monthly or more often? What profit levels do you want to achieve, and what sales levels are needed to reach those profit goals?

Deviation analysis puts the controls more directly to work by providing an early-warning system pinpointing trouble before it gets out of hand. By measuring progress towards the goals set in your income and cash flow projections, and clamping down on costs with deviation analysis, your management workload will be greatly reduced.

The financial statements are not intended to be straitjackets. They should instead free you from the most pressing problem most small-business owner/managers face: How do you find time for managing when there are so many brushfires to be put out? Your single most important asset is your time. To make effective use of your time, early planning is not a luxury. It is a necessity.

The financial statements are the easiest part of the business plan. The hard part, the thinking that goes into establishing the goals and strategies of your business and the effort that goes into staffing and managing people, has to be done before your financial projections can make sense. Your financial projections are a model of your business, based on your assumptions and experience and perceptions of your markets.

This model can provide the most effective control over your business available—or it can degenerate into a “fun with numbers” game. The choice is yours. You must take the time to think through your assumptions and objectives. You must make your assumptions as clear and as well defined as you can. And you must be prepared to continually review and reevaluate those assumptions and objectives.

Set aside time to review the information your financial statements provide. An excellent practice followed by many managers is to set aside an afternoon or evening each week away from the telephone and other interruptions for planning and review. If you feel you cannot afford the time, you have the clearest indication that you must plan, that you must take the time now.

Remember: Planning is the key to business success.

Planning is the key to business success.

Section Three: The Financing Proposal

The purpose of this section is to help you turn your business plan into a financing proposal which fits your business needs and capital constraints.

The financing proposal is slanted towards a banker's needs. In a very few situations, other capital sources should be approached—venture capital firms or investment bankers, for example. If your deal is large enough and the anticipated payoff is sufficiently high (financing needs of over \$1 million, with an anticipated payout rate greater than 40% annually are two rough measures), your banker and other advisors will steer you to the right people. Otherwise, don't waste your time or theirs. Most deals never get beyond the first screening (5% or so make it through) and only a handful of those get venture capital or go public. If your deal is attractive enough to warrant attention, you will want to tailor your proposal to the needs of your intended audience, a process well beyond the scope of this handbook and one that requires detailed knowledge of the players involved.

For the rest of us with more modest deals, turn to your banker first. Your banker may refer you to a local venture capital club or other source of equity—but start with your banker. If you need more equity than you have available, check with your accountant and lawyer, who may be in touch with individuals who invest in local or startup deals. If you don't have a banker and an accountant, you surely will have no need for specialized financing.

The business plan which you have developed throughout the preceding pages needs little alteration to become a first-rate financing proposal. Some areas of the plan will be of little use to your banker (personal histories can be replaced by resumes, deviation analysis won't be needed). The difference between a business plan and a financing proposal is one of emphasis rather than design: The main function of your plan is to enable you to understand and master the complexities of your business while the function of the financing proposal is to show your prospective backers that you not only know what you are doing but will also make their investment as risk-free as possible.

Most bankers deal with small business owners who don't understand the differences between types of financing, the importance of those distinctions to a business, and the banker's point of view. By showing some familiarity with how a business financing package looks from the banker's viewpoint, you will be on guard against two severe problems:

1. The banker who can't say "no" but who can't or won't provide adequate financing; and/or
2. The banker who gives the wrong loan for the wrong reasons.

You will also better understand the role of a bank in the financing process: Banks are not venture capitalists, not risk takers, not gamblers. They shouldn't be. Their business is investing other people's money, and they have to be cautious.

The function of the financing proposal is to show your prospective backers that you not only know what you are doing but will also make their investment as risk-free as possible.

Although the greatest dollar amounts of credit for businesses of all sizes is trade credit (money owed to suppliers), your single most important financing source is your local bank. Such esoteric financing tools as factoring, warehouse loans and the many forms of stocks, bonds, and debt instruments just don't apply to most businesses. If you need them, your banker will help you find the right professionals.

Debt vs. Equity

When you go to your bank for a loan, you are seeking debt money, which you will repay over a period of time at an additional cost (interest). The money you invest in your business is ordinarily equity, that is, money which will not be repaid to you unless you sell a portion of your ownership. Debt financing doesn't lead to sharing ownership of your business with the financier. Equity financing does.

Control is another matter. Your banker may exert substantial control over your business through a legal loan document or through suggestions—but he or she doesn't own your business. Debt pays interest, usually for a finite time. Equity pays profits forever.

The distinction between debt and equity is important to your banker because the more debt there is in relation to equity, the higher the risk. A high debt to worth ratio (worth being roughly equivalent to equity, but may include some kinds of subordinated debt) indicates high risk—and high risk costs high interest if you can find new debt money at all. Why? Because debt money is rented money, and the rent must be paid no matter what the business is doing. If you can't meet your debt payments, you go out of business.

Not only that, but a highly leveraged business (higher than normal debt to worth ratio for that kind of business) must earn more money. Sometimes it's possible to find so much debt money that the business never can get ahead. Without capital (permanent non-repayable money invested in the business), you can spin your wheels forever, a problem called overtrading. Sales to worth ratios are guidelines to this, and can help you pinpoint your capital needs relative to projected sales.

From a banker's viewpoint, the higher the debt, the riskier the deal. The longer the term, the riskier the deal. Short-term loans are less hazardous than long-term (with some exceptions) because if the loan goes sour, it does so in a hurry and can be easily detected, while a long-term decline can be almost imperceptible. The underlying issue—performance in the near term—can be predicted with much greater certainty than longer times allow.

Risk, the odds against an expected happening in the future, is just one of the elements in a credit decision.

Most bankers have been trained in the “Three C’s of Credit”: Character, Capacity, and Capital. Character reflects the willingness to pay (a record of non-payment or a prior personal bankruptcy, for example, might cause a banker to view a person’s character as too risky). Capacity and capital reflect ability to carry out the intent to pay. Experience is a factor here: Your experience in a given business affects your banker’s perception of your ability to successfully run this business. Capital is obvious: A well-capitalized business is inherently less risky than an under-capitalized business. Costs will be lower, for example, and a capital cushion makes for sounder decisions.

Two other C’s are often cited: Condition (of the economy and of the business) and Collateral. If the economy in your area is rolling off a cliff, the risk of your deal will be magnified. Collateral is useful as a means of tying you to the deal. Experience has shown that people who have their own assets on the line fight harder to make a deal work than people who are working with little of their own money at risk—and collateral also serves as a comfort factor for the banker. Bankers have no desire to be secondhand equipment dealers, or to sell out your stocks and bonds. But they like to have some recourse just in case your business fails.

That’s as it should be. Bankers are not in business to take risks or shoot for a long-shot. (Nor should you be. Most studies of successful business owners show a profile of moderate risk taking. Not too conservative, but certainly not too eager to run unjustified risks.)

Another way that bankers and other financiers look at a deal is to consider the personal, financial, and economic factors that are involved. The personal factors include many intangibles (integrity, for example; try to define it) but your personal track record provides a clue. This is why a full resume has to be part of your financing proposal. If your banker has known you forever, fine—put it in anyway. Other bankers may not know you as well. Your education, experience, and history are important: The saying that “there are no small business loans; just loans to small business owners” is true. You’ll probably have to sign personally for a loan while your business is small.

Financial factors will have been covered in some detail in your financial statements, and if they are based on clearly spelled out, rational assumptions (which they will be if you have followed the *Business Planning Guide* to this point), will provide additional evidence of your personal commitment as well. Financial factors include product/service, marketing, competition, personnel and management elements, so all the work of Section One: The Business come into play once more.

Economic factors may be beyond your control, but once again, will affect your banker’s decision. Your business idea might be poor today but wonderful tomorrow—and no banker would do you a favor by launching you into business at the wrong time. If times are tight, think carefully about a new venture (that doesn’t mean not to pursue it, just to think it through especially carefully).

Fit the financing to the need.

Assuming that you pass these rough sorting criteria, what comes next? Your business plan, tailored to the banker as a financing proposal, gains added credibility if you ask for the appropriate financing to fit your needs. You can research this ahead of time by involving your banker in your planning (never a bad idea anyway) and by asking your accountant.

The key here: Fit the financing to the need.

When you projected your cash flow, you did two things which help determine the right financing mix for your business. The deepest negative cash flows, both in net cash flow and cumulative cash flow, indicate how much money you need and when you need it. Projected cash receipts give you an inkling of how you will generate money to repay the loan or make good the investment. If you don't arrange for enough financing (of whatever kind), your deal will be dead. If you borrow more than you can service, your deal will also be dead. If you borrow at the wrong time, or for the wrong reasons, you aggravate the risks of being in business, risks which are already high.

Finestkind projected a worst negative cumulative cash flow in March of Year One (see Page 75) due to a timing problem. The solution: a term loan for equipment and renovation. Protecting liquidity and ensuring adequate working capital are legitimate reasons to borrow—if you fit the financing to the need. The April Year One shortfall is marked to show a need for the line of credit if needed, another legitimate financing purpose, and one their banker looked favorably on.

Kinds of Bank Financing

Bankers customarily divide loans into three general categories:

1. *Short-term financing* is usually provided through notes to be paid within one year, usually in one sum. These notes are repaid through inventory turn or by converting receivables to cash within the timeframe of the note.
2. *Intermediate-term financing* ranges from one to five years, and is usually repaid in fixed monthly payments or fixed principal payments plus interest. These loans are repaid from operating profits.
3. *Long-term financing* is provided for periods longer than five years. The most common example is real estate financing, where repayment is made on a pre-arranged schedule over a long period of years.

These loans may be secured or unsecured. A secured loan is backed by collateral (liens against your property, savings account or Certificate of Deposit, perhaps co-signed by someone with more assets) which would be applied to recover the loan in event of default.

An unsecured loan (sometimes called a signature or character loan) is one not backed by any collateral. These are almost always short-term loans and

available only to the most credit-worthy individuals and companies. The loan is backed up by your banker's faith in your character, capability and capital.

It helps to remember that bankers are in the business of investing money which isn't theirs, money which mustn't be subject to unusual risks. Banks do not and should not gamble with their depositors' money, and as a borrower you should understand this.

Your banker will lend your business money if he or she feels comfortable with the risk. They are under no obligation to lend money to a business which doesn't fit their risk tolerance—a frequent source of anger to credit seekers. Help your banker decide in your favor: Lower the risk by keeping a low debt to worth ratio, make sure to have enough working capital to cover current liabilities, and match the financing request to your real needs. Note that from a banker's viewpoint, a loan should be repaid as soon as possible.

Long-term debt is for long-term needs: fixed assets which will be used and paid for over the long haul. To pay this kind of debt off too fast is a mistake unless you are extremely well capitalized, in which case check with your banker and accountant first. They'll tell you.

Short-term debt is for short-term needs: seasonal inventory loans, short-run production or construction loans, short-term liquidity problems. These are repaid from the returns on specific transactions or series of transactions in a short period of time. If these are financed over a longer time span, the result is almost always deepening debt and the erosion of business assets. Even though your cash flow will look good by spreading the cost over a longer period, you would be violating a cardinal rule of borrowing: paying for a benefit after it has been exhausted. One reason bankers are hesitant to bail small businesses out of chronic trade debts is that those unpaid debts are evidence that the business is seriously mismanaged. Paying for a dead horse is bad business.

The line of credit (revolving or non-revolving) is a short-term tool which works like a credit card: You arrange before the need arises to have so much credit to draw against; then you pay it off (or renew it). The main thing to avoid is to get used to paying for last year's short-term needs with new debt—bad enough for an individual, but worse for a small business.

Intermediate-term debt is for those needs which last between one and five years. Most common are equipment loans and working capital loans for businesses undergoing rapid growth. By converting debt to earnings, and then retaining a portion of the earnings as capital, it is possible to grow using debt money. Don't plan on this, though, as it requires a farsighted banker, considerable risk, and profits high enough to handle the added interest costs.

For any kind of financing, a final word may be helpful: Friday night financing never works.

Always make sure your banker knows your needs well in advance. Then you

**Friday night
financing never
works.**

won't get caught in a cash squeeze. Borrowing in a panic is outrageously dangerous. Don't do it.

Earlier in this section, we mentioned the problem of the banker who can't say no but won't provide the right amount of financing. If you have thought through your business plan, you will know how much you need, and when you'll need it. Make sure to get the right financing; less will only complicate matters. If your banker can give you good reasons to borrow less, pay attention—but think it through. Don't settle for enough money to get you into trouble but not enough to see you through.

Tell your banker what you need the money for, how it will be repaid—and why the deal makes good business sense. Your financing proposal does just that, and if based on your business plan and careful analysis, you should get the right financing.

A final reminder: Planning is the key to success.

Section Four: Supporting Documents

You will want to include any documents which lend support to statements you have made in the body of the business plan. Items included here will vary according to the needs and stage of development of your particular business. The following list suggests some things which might be included:

1. Resumes: very important—see Functional Resumes, Appendix Two.
2. Credit information: forms included in Appendix Five.
3. Quotes or estimates.
4. Letters of Intent from prospective customers.
5. Letters of Support from credible people who know you.
6. Leases or Buy/Sell Agreements.
7. Legal Documents relevant to the business.
8. Census/Demographic data.

A Sample Resume

Mike Swan

March 19— to June 19—: Line Foreman, Fatback Fishfoods, East Machias, Maine. Responsible for hiring, training and directing operations of 15 people in Frozen Food Filleting Department. Rescheduled work flow with resultant 30% increase in output per worker. Implemented new purchasing system which reduced spoilage 8%. Reduced personnel turnovers by working with local union for revision of company contract policy and by shifting from production line to team task approach. Received Grandiose Foodstuff, Inc. award for line management and was given special assignment in September, 19— to explain these changes to other line foreman at all 22 Fatback Fishfoods plants in New England and the Middle Atlantic states.

Mike Gosling

August 19— to September 19—: Self-employed carpenter. Responsibilities included cash flow forecasting, budgeting, and various other management functions needed in the operation of a single employee business. Night courses have been taken concurrently in small business management and sales at University of Maine. Currently serving on the Anytown Zoning Board. Prior experience included a three-year term in the U.S. Navy. Married, two children.

A Sample Census Tract

Table P-1. General Characteristics of Persons: 1980—Con.

(For meaning of symbols, see Introduction. For definitions of terms, see appendices A and B.)

Census Tracts	York County (pt.) Maine						Portsmouth city, Rockingham County, N.H.					
	Tract 0320	Tract 0350	Tract 0360	Tract 0370	Tract 0380	Tract 0380 99	Tract 0691	Tract 0692	Tract 0693	Tract 0693 99	Tract 0694	Tract 0695
AGE												
Total persons	4 149	4 046	8 465	4 948	8 687	627	4 015	2 749	2 376	21	2 598	6 767
Under 5 years	313	277	538	376	579	—	138	155	159	—	372	884
5 to 9 years	358	321	576	418	577	—	187	124	149	—	325	692
10 to 14 years	391	364	605	453	623	1	207	160	202	—	338	454
15 to 19 years	362	374	712	432	705	82	257	210	193	—	369	609
20 to 24 years	361	325	564	314	811	305	475	355	250	1	475	1 439
25 to 34 years	693	672	1 427	914	1 476	172	805	537	442	2	614	1 527
35 to 44 years	495	516	1 020	644	975	46	362	262	215	3	320	599
45 to 54 years	408	346	936	511	850	11	340	303	221	9	269	249
55 to 64 years	345	377	901	427	925	10	375	302	240	6	236	185
65 to 74 years	268	308	667	299	713	—	401	210	183	—	189	91
75 years and over	157	164	519	160	423	—	468	151	122	—	81	38
3 and 4 years	113	108	208	154	223	—	60	51	58	—	146	346
16 years and over	3 003	3 000	6 574	3 604	6 766	626	3 435	2 297	1 819	21	2 476	4 655
18 years and over	2 845	2 834	6 249	3 403	6 444	613	3 329	2 216	1 743	21	2 349	4 495
21 years and over	2 659	2 644	5 932	3 211	6 057	490	3 153	2 088	1 638	21	2 102	3 811
60 years and over	574	652	1 590	670	1 607	10	1 070	513	427	2	373	213
62 years and over	519	586	1 410	582	1 413	—	989	446	379	2	328	179
Median	29.0	30.6	33.6	30.7	31.8	23.6	33.9	31.8	29.7	51.5	23.9	22.4
Female												
Under 5 years	2 118	2 107	4 322	2 492	4 411	—	2 251	1 298	1 344	—	1 889	2 930
5 to 9 years	146	138	244	190	287	—	66	82	69	—	189	412
10 to 14 years	178	161	277	188	282	—	93	57	83	—	173	341
15 to 19 years	172	186	302	215	326	—	101	72	84	—	165	232
20 to 24 years	185	187	346	207	351	—	132	103	97	—	186	206
25 to 34 years	183	172	294	163	386	—	279	174	142	—	240	499
35 to 44 years	342	349	706	464	720	—	394	249	215	—	310	687
45 to 54 years	243	266	509	316	477	—	172	132	111	—	173	267
55 to 64 years	219	163	490	250	442	—	179	140	118	—	148	119
65 to 74 years	193	199	476	223	468	—	209	168	121	—	133	87
75 years and over	156	171	348	171	411	—	274	119	113	—	110	53
3 and 4 years	101	115	331	105	261	—	352	102	91	—	54	27
16 years and over	1 576	1 579	3 417	1 857	3 453	—	1 561	1 173	988	—	1 323	1 911
18 years and over	1 502	1 503	3 254	1 752	3 282	—	1 509	1 134	947	—	1 259	1 825
21 years and over	1 399	1 397	3 101	1 663	3 095	—	1 417	1 055	886	—	1 131	1 654
60 years and over	343	378	890	383	908	—	739	309	261	—	221	117
62 years and over	311	343	802	340	804	—	697	272	238	—	198	104
Median	30.5	31.0	34.9	31.5	32.5	—	37.6	33.2	31.5	—	24.7	22.7
HOUSEHOLD TYPE AND RELATIONSHIP												
Total persons	4 149	4 046	8 465	4 948	8 687	627	4 015	2 749	2 376	21	2 598	6 767
In households	4 114	3 950	8 338	4 948	8 482	—	3 942	2 744	2 376	—	3 598	5 617
Householder	1 406	1 380	3 152	1 690	3 256	—	1 928	1 201	926	—	1 250	1 643
Family householder	1 097	1 080	2 367	1 370	2 362	—	858	658	645	—	936	1 552
Nonfamily householder	309	300	785	300	894	—	1 070	543	281	—	314	91
Living alone	264	240	652	234	739	—	864	421	226	—	224	78
Spouse	944	933	2 083	1 223	2 049	—	652	508	494	—	624	1 444
Other relatives	1 654	1 535	2 847	1 706	2 888	—	1 031	841	851	—	1 522	2 482
Nonrelatives	110	102	256	129	289	—	331	194	105	—	202	48
Inmate of institution	1	36	107	—	54	—	44	—	—	—	—	—
Other in group quarters	34	60	20	—	151	627	29	25	—	21	—	1 150
Persons per household	2.93	2.86	2.65	2.93	2.61	—	2.04	2.28	2.57	—	2.88	3.42
Persons per family	3.37	3.29	3.08	3.25	3.09	—	2.96	3.05	3.09	—	3.29	3.53
Persons 65 years and over												
In households	425	474	1 186	459	1 134	—	869	361	305	—	270	129
Householder	406	448	1 092	459	1 074	—	804	361	305	—	270	129
Family householder	256	282	710	287	728	—	611	350	214	—	175	61
Nonfamily householder	117	118	294	116	346	—	403	124	115	—	66	29
Living alone	114	115	278	104	333	—	392	116	109	—	64	28
Spouse	74	106	277	122	260	—	131	66	63	—	70	33
Other relatives	64	54	86	36	74	—	52	35	23	—	22	14
Nonrelatives	12	6	19	14	12	—	10	10	5	—	3	1
Inmate of institution	1	25	94	—	52	—	43	—	—	—	—	—
Other in group quarters	18	1	—	—	10	—	22	—	—	—	—	—
FAMILY TYPE BY PRESENCE OF OWN CHILDREN												
Families	1 097	1 080	2 367	1 390	2 362	—	858	658	645	—	936	1 532
With own children under 18 years	619	576	1 149	758	1 166	—	334	279	319	—	583	1 120
Number of own children under 18 years	1 207	1 133	2 106	1 444	2 107	—	613	510	585	—	1 166	2 185
Married-couple families	944	952	2 083	1 223	2 049	—	652	508	494	—	624	1 444
With own children under 18 years	544	489	989	663	985	—	244	214	227	—	347	1 040
Number of own children under 18 years	1 064	984	1 827	1 296	1 799	—	448	406	419	—	712	2 043
Female householder, no husband present	115	122	221	132	238	—	171	112	125	—	272	70
With own children under 18 years	64	72	129	79	145	—	79	52	82	—	214	51
Number of own children under 18 years	124	124	225	126	259	—	150	81	147	—	421	94
MARITAL STATUS												
Male, 15 years and over	1 665	1 662	3 266	1 802	3 392	626	1 492	1 143	858	21	1 191	2 792
Single	362	376	812	420	878	308	551	412	261	2	417	1 081
Now married, except separated	970	964	2 142	1 250	2 154	298	685	534	506	9	646	1 540
Separated	13	18	28	18	33	6	33	28	14	1	27	45
Widowed	37	27	99	33	113	—	61	35	20	2	16	16
Divorced	83	77	165	81	214	14	162	134	57	7	85	110
Female, 15 years and over	1 622	1 622	3 500	1 899	3 516	—	1 991	1 187	1 008	—	1 242	1 945
Single	373	339	659	343	662	—	597	337	223	—	319	325
Now married, except separated	975	969	2 154	1 256	2 122	—	688	529	510	—	641	1 493
Separated	23	22	40	21	48	—	39	24	25	—	69	19
Widowed	184	182	420	177	424	—	431	175	141	—	125	54
Divorced	117	110	227	102	260	—	236	122	109	—	208	54

ME License 1000

NH License 2000

Johnson's Plumbing, Inc.
1327 Varnum Street,
Anytown, ME 04112
Phone: 332-2222

September 18, 19—

Finestkind Seafoods, Inc.
123 Main Street
Anytown, ME 04112
Attn: Mr. Mike Gosling

Dear Mr. Gosling:

For the sum of \$4,000.00, we propose to furnish and install the plumbing and heat work as shown on your outline sketch.

All work will be guaranteed and serviced for one year from the date of completion.

We would require a down payment of \$1,150.00 and another payment of \$1,150 when the rough plumbing and heating is completed, with the balance due upon final completion.

If the above meets with your approval, please sign and return one copy.

Signed by: _____

Date: _____

Thank you,

Derek LaMont Johnson

Nightlife Clambakes
222 Rural Lane
Anytown, ME 04112

September 10, 19—

Gentlemen:

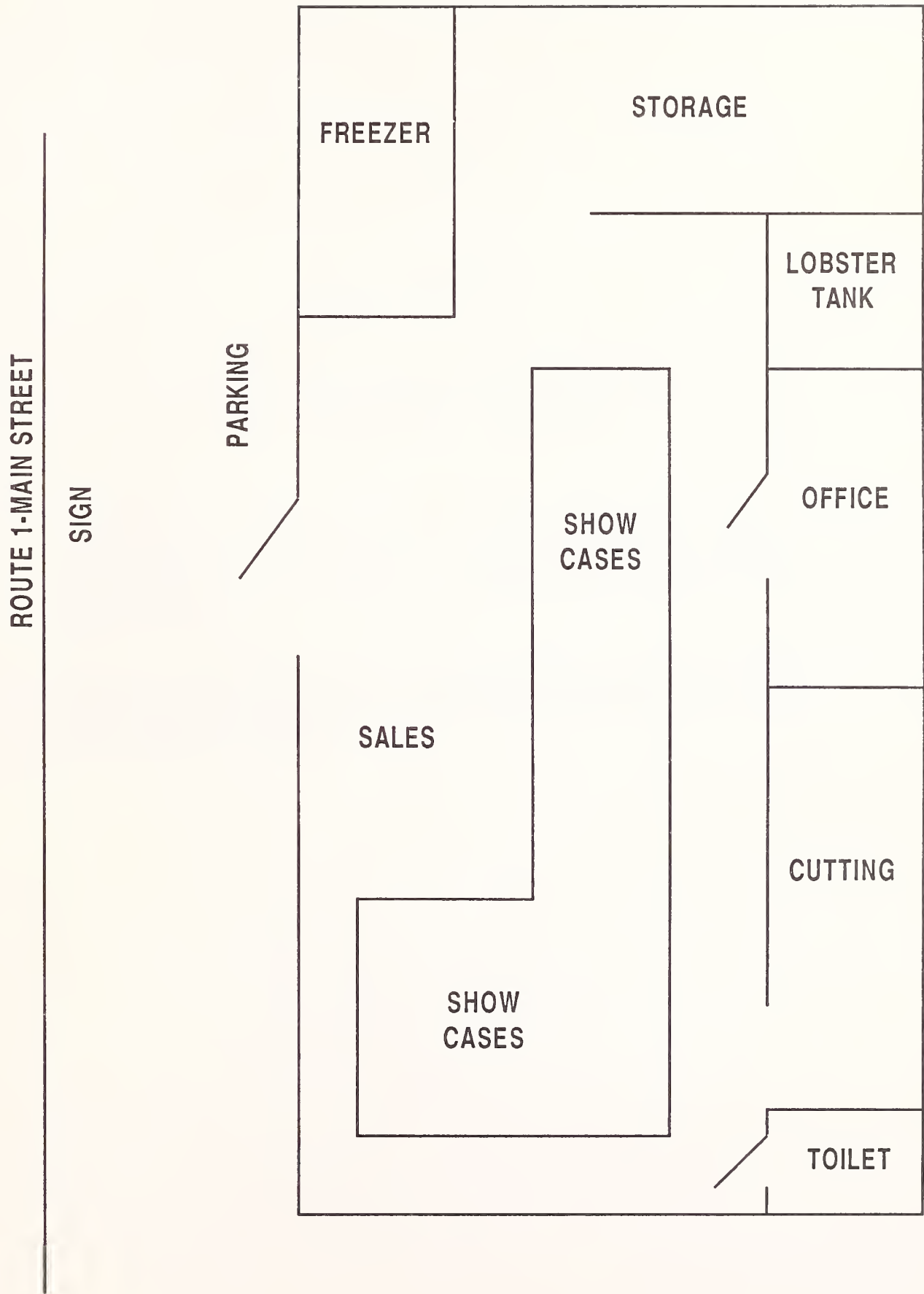
It is a pleasure to write this letter of recommendation for Finestkind Seafoods, Inc. Our dealings with Messrs. Gosling and Swan have been completely satisfactory. Our business requires a dependable supply of fresh fish, clams and lobsters of first quality. We have consistently received seafood products from Finestkind which meet these standards.

Our business is growing and we look forward to an ongoing relationship with Finestkind to satisfy our needs and customers.

Yours,

Alessandro Tetrzini

A Sample Floor Plan



-LAYOUT-
FINESTKIND
SEAFOODS, INC.

Appendix One:

A Sample Partnership Agreement and Corporate Checklist

These forms have been made available to Upstart Publishing Company, Inc. by General Business Services, Inc. of Rockville, MD. GBS is a nationwide company providing tax and business counseling services to small businesses.

We have modified the forms. To obtain originals, ask your local GBS representative for GBS form 8418: Partnership Agreement, or GBS form 8438: Corporate Checklist.

A Sample Partnership Agreement

Agreement made _____, 19____, between _____,
City of _____, County of _____, State of _____, and
_____ of _____ (address), City of
_____, County of _____, State of _____, hereinafter referred to
as partners.

ITEM ONE

NAME, PURPOSE AND DOMICILE

The name of the partnership shall be _____. The partnership shall be conducted for the purposes
of _____. The principal place of business shall be at
_____ unless relocated by majority consent of the partners.

ITEM TWO

DURATION OF AGREEMENT

The term of this agreement shall be for _____ years, commencing on _____, 19____, and
terminating on _____, 19____, unless sooner terminated by mutual consent of the parties or by
operation of the provisions of this agreement.

ITEM THREE

CONTRIBUTION

Each partner shall contribute _____ dollars (\$_____) on or before _____, 19____
to be used by the partnership to establish its capital position. Any additional contribution required of partners shall
only be determined and established in accordance with Item Seventeen.

ITEM FOUR

BOOKS AND RECORDS

Books of accounts shall be maintained by the partners, and proper entries made therein of all sales, purchases,
receipts, payments, transactions, and property of the partnership, and the books of accounts and all records of the
partnership shall be retained at the principal place of business as specified in Item One herein. Each partner shall
have free access at all times to all books and records maintained relative to the partnership business.

ITEM FIVE

DIVISION OF PROFITS AND LOSSES

Each partner shall be entitled to _____ percent (____%) of the net profits of the business and all losses
occurring in the course of the business shall be borne in the same proportion, unless the losses are occasioned by
the willfull neglect or default, and not mere mistake or error, of any of the partners, in which case the loss so
incurred shall be made good by the partner through whose neglect or default the losses shall arise. Distribution
of profits shall be made on the _____ day of _____ each year.

ITEM SIX
PERFORMANCE

Each partner shall apply all of his experience, training, and ability in discharging his assigned functions in the partnership and in the performance of all work that may be necessary or advantageous to further business interests of the partnership.

ITEM SEVEN
BUSINESS EXPENSES

The rent of the buildings where the partnership business shall be carried on, and the cost of repairs and alterations, all rates, taxes, payments for insurance, and other expenses in respect to the buildings used by the partnership, and the wages for all persons employed by the partnership are all to become payable on the account of the partnership. All losses incurred shall be paid out of the capital of the partnership or the profits arising from the partnership business, or, if both shall be deficient, by the partners on a pro rata basis, in proportion to their original contribution.

ITEM EIGHT
ACCOUNTING

The fiscal year of the partnership shall be from _____ to _____ of each year. On the _____ day of _____, commencing in 19__, and on the _____ day of _____ in each succeeding year, a general accounting shall be made and taken by the partners of all sales, purchases, receipts, payments, and transactions of the partnership during the preceding fiscal year, and of all the capital property and current liabilities of the partnership. The general accounting shall be written in the partnership account books and signed in each book by each partner immediately after it is completed. After the signature of each partner is entered, each partner shall keep one of the books and shall be bound by every account, except that if any manifest error is found therein by any partner and shown to the other partners within _____ months after the error shall have been noted by all of the them, the error shall be rectified.

ITEM NINE
SEPARATE DEBTS

No partner shall enter into any bond or become surety, security, bail or co-signer for any person, partnership or corporation, or knowingly condone anything whereby the partnership property may be attached or be taken in execution, without the written consent of the other partners.

Each partner shall punctually pay his separate debts and indemnify the other partners and the capital and property of the partnership against his separate debts and all expenses relating thereto.

ITEM TEN
AUTHORITY

No partner shall buy goods or articles into any contract exceeding the value _____ dollars (\$_____) without the prior consent in writing of the other partners; or the other partners shall have the option to take the goods or accept the contract on account of the partnership or let the goods remain the sole property of the partner who shall have obligated himself or herself.

ITEM ELEVEN

EMPLOYEE MANAGEMENT

No partner shall hire or dismiss any person in the employment of the partnership without the consent of the other partners, except in cases of gross misconduct by the employee.

ITEM TWELVE

SALARY

No partner shall receive any salary from the partnership, and the only compensation to be paid shall be as provided in Items Five and Fourteen herein.

ITEM THIRTEEN

DEATH OF A PARTNER

In the event of the death of one partner, the legal representative of the deceased partner shall remain as a partner in the firm, except that the exercising of the right on the part of the representative of the deceased partner shall not continue for a period in excess of _____ months, even though under the terms hereof a greater period of time is provided before the termination of this agreement. The original rights of the partners herein shall accrue to their heirs, executors, or assigns.

ITEM FOURTEEN

ADVANCE DRAWS

Each partner shall be at liberty to draw out of the business in anticipation of the expected profits any sums that may be mutually agreed on, and the sums are to be drawn only after there has been entered in the books of the partnership the terms of agreement, giving the date, the amount to be drawn by the respective partners, the time at which the sums shall be drawn, and any other conditions or matters mutually agreed on. The signatures of each partner shall be affixed thereon. The total sum of the advance draw for each partner shall be deducted from the sum that partner is entitled to under the distribution of profits as provided for in Item Five of this agreement.

ITEM FIFTEEN

RETIREMENT

In the event any partner shall desire to retire from the partnership, he shall give _____ months notice in writing to the other partners and the continuing partners shall pay to the retiring partner at the termination of the _____ months notice the value of the interest of the retiring partner in the partnership. The value shall be determined by a closing of the books and a rendition of the appropriate profit and loss, trial balance, and balance sheet statements. All disputes arising therefrom shall be determined as provided in Item Eighteen.

ITEM SIXTEEN

RIGHTS OF CONTINUING PARTNERS

On the retirement of any partner, the continuing partners shall be at liberty, if they so desire, to retain all trade names designating the firm name used, and each of the partners shall sign and execute assignments, instruments, or papers that shall be reasonably required for effectuating an amicable retirement.

ITEM SEVENTEEN

ADDITIONAL CONTRIBUTIONS

The partners shall not have to contribute any additional capital to the partnership to that required under Item Three herein, except as follows: (1) each partner shall be required to contribute a proportionate share in additional contributions if the fiscal year closes with an insufficiency in the capital account of profits of the partnership to meet current expenses, or (2) the capital account falls below _____ dollars (\$_____) for a period of _____ months.

ITEM EIGHTEEN

ARBITRATION

If any differences shall arise between or among partners as to their rights or liabilities under this agreement, or under any instrument made in furtherance of the partnership business, the difference shall be determined and the instrument shall be settled by _____, acting as arbitrator, and his or her decision shall be final as to the contents and interpretations of the instrument and as to the proper mode of carrying the provision into effect.

ITEM NINETEEN

RELEASE OF DEBTS

No partner shall compound, release, or discharge any debt that shall be due or owing to the partnership, without receiving the full amount thereof, unless that partner obtains the prior written consent of the other partners to the discharge of the indebtedness.

ITEM TWENTY

ADDITIONS, ALTERATIONS, OR MODIFICATIONS

Where it shall appear to the partners that this agreement, or any terms and conditions contained herein, are in any way ineffective or deficient, or not expressed as originally intended, and any alteration or addition shall be deemed necessary, the partners will enter into, execute, and perform all further deeds and instruments as their counsel shall advise. Any addition, alteration, or modification shall be in writing, and no oral agreement shall be effective.

In witness whereof, the parties have executed this agreement on _____ the day and year first above written.

Courtesy of General Business Services, Inc.

Corporate Checklist

A. The formation of a corporation constitutes the formation of a separate legal entity under state law. It is essential that the services of a competent local attorney be obtained to help the client file the Articles of Incorporation and meet the terms of the state law.

B. Below is a sample election for the corporation to be treated as a Section 1244 small business corporation. This is included so that the client may have it available to discuss with his or her attorney.

C. Following is a list of steps that will be necessary for a new corporation. It should not be deemed to be all inclusive. It is not intended to be used as substitution to the client of a competent attorney.

1. *Incorporators:* Have a meeting of the incorporators and determine the following:

- a. The corporate name
- b. The classes and number of shares to authorize
- c. Business purpose for which the corporation is formed
- d. Initial capital needed
- e. The directors
- f. Location of business
- g. The corporate officers and their salaries
- h. Check on thin incorporation

2. *Determine start-up date:* If the corporation is to take over a going business, a start-up date should be set at some time in the future, so that all steps can be taken without unnecessary haste.

3. *Research the corporate name:* Check at once with the Secretary of State to see if the corporate name is available.

4. *Notify the following:*

- a. Insurance company—have policies changed. May also be necessary to increase coverage.
- b. Creditors—inform all creditors of former business.
- c. Customers—inform all customers of former business.
- d. State and local authorities—such as the state unemployment and disability department and county assessor.

5. *Transfer assets and liabilities:* If the corporation is to take over a going business, determine what assets and liabilities are to be turned over to the corporation, and shares or notes to be issued in exchange. Determine whether it qualifies as a tax-free exchange under IRC Sec. 3.

6. *Select banks:* Select bank or banks and furnish resolution authorizing who is to sign checks and negotiate loans.

7. Obtain identification number: File application for an Identification Number, Federal Form SS-4.

8. File for Worker's Compensation coverage.

9. File for Unemployment Insurance coverage.

10. Obtain any special licenses: Check on transfer of new license such as food, drug, cigarette, liquor, etc.

11. File final returns: If the new corporation is taking over a going business, file Sales Tax, FICA Tax, Unemployment Tax, and Worker's Compensation final returns for the old business after the corporation takes over the operation of the new business.

12. Determine Federal Unemployment requirements: Determine if final Form 940, Employer's Annual Federal Unemployment Tax return is to be filed on old business.

13. Sales tax: Obtain a new sales tax vendor's license on the first day of business. Do not use any tax stamps purchased by the former business and do not use the plate from the former business.

14. Tax elections:

- a. Election under Sub-Chapter S—Determine if the corporation is going to elect to be taxed as a partnership under Sub-Chapter S. If so, prepare and file Form 2553, Election by Small Business Corporation, within thirty days after the first day of fiscal year of date new corporation commences to "do business."
- b. Section 1244 stock—If the corporation is eligible, issue stock in accordance with a written plan included in the minutes.
- c. Year ending—Determine the date the corporation's year will end.
- d. Accounting—Determine the method of accounting the corporation will use.

A Sample Plan for Sec. 1244 Stock Offer (for inclusion in minutes)

This Corporation is a small business corporation as defined in Sec. 1244(c)(2) of the Internal Revenue Code of 1954.

The Board of Directors wishes to offer for sale and issue shares of its common stock authorized by its Certificate of Incorporation; and

That the offer, sale and issue of such shares be carried out in such a manner that, in the hands of qualified shareholders, such shares will receive the benefits of Sec. 1244 of the Internal Revenue Code of 1954; and

Whereas, there is not now outstanding any offering, or portion thereof, of this Corporation to sell or issue any of its stock; and

Now, therefore, be it resolved, that the President of this Corporation and such other officers as he or she may designate be, and hereby are, authorized and directed to offer for sale and to sell and to issue up to _____ shares of the common stock in the total amount of \$_____ * at \$_____ per share payable in cash or other property** during the period from the date hereof to _____ *** or to the date when this Corporation shall make a subsequent offering of any stock, whichever shall first occur.

* Total amount subject to limitations.

** Stock issued for stock or securities may not qualify.

*** This period must not be more than two years from the date of the plan.

Courtesy of General Business Service, Inc.

Appendix Two:
Functional Resumes

Functional Resumes

Functional resumes are designed to provide financing agencies with the information needed to make decisions on managerial competence and experience. Ordinary resumes (such as the SBA Personal Information Sheet) can and do provide information such as job titles, dates, and salaries, but they do not answer such questions as: Did you have hiring and firing authority? Could you redesign work flow? And so forth.

A functional resume is usually self-designed since most jobs are not standard. The objective of this section is to help you design a functional resume which displays *your* experience and competence. Treat the following as suggestions, not ironclad rules.

A Suggested Format

Resume of YOUR NAME

1. Business address
Telephone number

2. Home address
Telephone number

Business Experience

3. Most recent job first (include military experience).

Education

4. Most recent grade or diploma completed first.

Special Abilities and Interests

5. Hobbies, clubs, civic activities, etc.

Personal Information

6. Age, marital status, number of children.

References

7. Names and addresses of references (preferably businesspeople).

Items 4 and 5 are those which make a functional resume different from an ordinary, fact-oriented resume. They should describe jobs, education, and interests in functional terms. For example:

Standard resume:

March 19— to June 19—: Foreman, Fatback Fishfoods, Machias, Maine.
Beginning salary \$160/week. Final salary \$205/week.

A good resume will also give the reader an understanding of what you *can* do.

Notice how the “standard” form is composed of brief detail. Contrast this with:

Functional:

March 19— to June 19—: Line Foreman, Fatback Fishfoods, East Machias, Maine. Responsible for hiring, training and directing operations of 15 persons in Frozen Food Filleting Department. Rescheduled work flow with resultant 30% increase in output per worker. Implemented new purchasing system which reduced spoilage 8%. Reduced personnel turnovers by working with local union for revision of company contract policy and by shifting from production line to team task approach. Received Grandiose Foodstuff, Inc. award for line management and was given special assignment in September, 19— to explain these changes to other line foreman at all 22 Fatback Fishfoods plants in New England and the Middle Atlantic states.

Two final points: First, a good resume (functional or otherwise) should have no sizable time gaps (more than a month). Longer gaps create a credibility problem. Second, a good resume will do more than inform the reader of what you have done. It will also give the reader an understanding of what you *can* do, and this understanding, based on demonstrated performance, can make the difference between a positive response to a financing proposal and a negative one.

Your objective in Items 4 and 5 is to show what you have accomplished and what abilities you have demonstrated. Item 5, “Special Abilities and Interests,” can be used to cover non-job achievements, interests, and skills which may or may not be directly relevant to your employment. For instance, this is where off-the-job managerial experience would be stressed (e.g., local politics, coaching, leadership of clubs).

Appendix Three:
Bibliography and Resources

Bibliography

There are many excellent texts available on small-business management, but most are more appropriate for businesses with more than 100 employees. Check out your local library, college bookstores, and these sources of small-business management information:

1. **Upstart Publishing Company, Inc.: *Profit Improvement Guides*.** This series of handbooks on proven management techniques for small businesses is available from Upstart Publishing Company, Inc., PO Box 323, Portsmouth, NH 03801. For a free current catalogue, call 800-236-8866 outside New Hampshire or 749-5071 in state.

The series consists of the following books:

Business Planning Guide, © 1976, 1985, 1988, David H. Bangs, Jr. and Upstart Publishing Company, Inc. A 160-page manual that helps you write a business plan and financing proposal tailored to your business, your goals, and your resources. Includes worksheets and checklists.

Personnel Planning Guide, © 1988, David H. Bangs, Jr. and Upstart Publishing Company, Inc. A 160-page manual outlining practical and proven personnel management techniques, including hiring, managing, evaluating and compensating personnel. Includes worksheets and checklists.

Cash Flow Control Guide, © 1988, David H. Bangs, Jr. and Upstart Publishing Company, Inc. A 75-page manual to help small-business owners solve their number-one financial problem. Includes worksheets and checklists.

Market Planning Guide, © 1988, David H. Bangs, Jr. and Upstart Publishing Company, Inc. A 240-page manual to help small-business owners put together a goal-oriented, resource-based marketing plan with action steps, benchmarks, and timelines. Includes worksheets and checklists to make implementation and review easier.

How to Earn More Profits Through the People Who Work for You, William H. Scott, © 1982, Prentice-Hall. Currently out of print, but available from Bill Scott, c/o Upstart Publishing Co., Inc., PO Box 323, Portsmouth, NH 03801. \$7.95/copy, shipping & handling included.

Common Sense Management Techniques. These six-page, in-depth reports focus on various aspects of running a small business, and are published by Upstart Publishing Co., Inc., PO Box 323, Portsmouth, NH 03801. Topics are updated on a regular basis, and currently over 60 are available. Titles include *Inventory Management*, *Choosing the Right Computer*, *Estate Planning and the Closely-Held Business*, *Developing a Personnel Manual*, and more. Each report costs \$7.95. For a list of available and upcoming topics, call 800-235-8866 outside New Hampshire or 749-5071 in state.

2. ***Small Business Reporter***. An excellent series of booklets on small-business management published by Bank of America, Department 3120, PO Box 37000, San Francisco, CA 94137. 1-415-622-2491. Individual copies are \$5 each. Ask for a list of current titles—they have about 17 available including, *Steps to Starting a Business*, *Avoiding Management Pitfalls*, *Business Financing* and *Marketing Small Business*.
3. ***In Business***. A bimonthly magazine for small businesses, especially those with less than 10 employees. The publisher is J.G. Press, PO Box 323, Emmaus, PA, 18049. Annual subscriptions are \$18.

4. *The Great Brain Robbery*, Ray Considine and Murray Raphel, © 1980, 1981, by The Great Brain Robbery, 1360 East Rubio Street, Altadena, CA 91101. Subtitled "A collection of proven ideas to make you money and change your life!," *The Great Brain Robbery* contains numerous checklists and ideas which are thought-provoking. The chapters entitled "Formula for Success," "Secret Selling Sentences," and "If You Don't Like It Here, Get Out!" are particularly provocative. Raphel and Considine are marketing and promotional experts—which is apparent throughout this book.
- 5 *Marketing with Facts*, © 1986, published by Price Waterhouse, 1251 Avenue of the Americas, New York, NY 10020. This book, part of a series aimed at small-business owners and entrepreneurs, focuses on how marketing information can be used to enhance opportunities for profit. The book's lists of questions and lexicon of marketing terminology are particularly helpful. Copies of this book cost \$5.00 and are available at any Price Waterhouse office.

Other Tools for Small-Business Owners

Upstart Video. We have a videotape based on the *Business Planning Guide*. Call 800-235-8866 outside New Hampshire and 749-5071 in state for more information.

Software for small businesses. The best integrated planning package for small-business owners we've come across is Plans 'n Totals™, which requires an IBM PC or equivalent with 512K RAM. Plans 'n Totals™ provides menus to help prepare financial projections and budgets, and then helps you analyze them (break-even and ratio analysis are built in). Call 617-264-4450, or write to Resource N Corporation, 66 Commonwealth Avenue, Concord, MA 01742 for current price information. A demo disk is available.

Our favorite spreadsheets are Excel™ and Multiplan™ for the Macintosh, and Lotus 1-2-3™ for the IBM-PC and compatibles. You may find ready-made templates for specific business applications available from local computer clubs.

Resources

1. **Small Business Development Centers (SBDCs).** Call your state university or the Small Business Administration (SBA) to find the SBDC nearest to you. Far and away the best free management program available, SBDCs provide expert assistance and training in every aspect of business management. Don't ignore this resource.
2. **SCORE**, an SBA-based program. Retired executives who are interested in small business provide hands-on help. The value of this service depends on the local chapter. Some are superb. Some are not.
3. **Small Business Administration (SBA).** The SBA offers a number of management assistance programs which, like their SCORE program, are very uneven. If you are assigned a capable Management Assistance Officer, you have an excellent resource. Unfortunately, good MAOs are rare—most leave for the private sector as soon as possible. Still, the SBA is worth a visit, if only to leaf through their extensive literature.
4. **Colleges and universities.** Most have business courses. Some have SBDCs, others have more specialized programs. Some have small-business expertise—the University of New Hampshire, for example, has two schools which provide direct small-business management assistance.
5. **Keye Productivity Center**, P.O. Box 23192, Kansas City, MO 64141. Keye Productivity offers business seminars on specific personnel topics for a reasonable fee. Call them at 800-821-3919 for topics and prices. Their seminar entitled *Hiring and Firing* is excellent, well-documented, and useful. Good handout materials are included.
6. **Comprehensive Accounting Corporation**, 2111 Comprehensive Drive, Aurora, IL 60507. CAC has over 425 franchised offices providing accounting, bookkeeping and management consulting services to small businesses. For information, call 800-323-9009.
7. **General Business Services**, 20271 Goldenrod Lane, Germantown, MD 20874-4090. GBS has nearly 1,000 franchised offices providing accounting, bookkeeping and management consulting services to small businesses. For information, call 301-428-1040.
8. **Center for Entrepreneurial Management**, 29 Greene Street, New York, NY 10013. The oldest and largest nonprofit membership association for small-business owners in the world. They maintain an extensive list of books, videotapes, cassettes and other small-business management aids. Call 212-925-7304 for information.

Appendix Four:

Glossary

Glossary

“Acid Test” Ratio: Cash, plus other assets which can be immediately converted to cash, should equal or exceed current liabilities. The formula used to determine the ratio is as follows:

$$\frac{\text{Cash plus Receivables (net)} \\ \text{plus Marketable Securities}}{\text{Current Liabilities}}$$

The “acid test” ratio is one of the most important credit barometers used by lending institutions, as it indicates the abilities of a business enterprise to meet its current obligations.

Aging Receivables: A scheduling of accounts receivable according to the length of time they have been outstanding. This shows which accounts are not being paid in a timely manner and may reveal any difficulty in collecting long overdue receivables. This may also be an important indicator of developing cash flow problems.

Amortization: To liquidate on an installment basis; the process of gradually paying off a liability over a period of time, i.e., a mortgage is amortized by periodically paying off part of the face amount of the mortgage.

Assets: The valuable resources, or properties and property rights owned by an individual or business enterprise.

Balance Sheet: An itemized statement which lists the total assets, liabilities, and net worth of a given business to reflect its financial condition at a given moment in time.

Capital: Capital funds are those funds which are needed for the base of the business. Usually they are put into the business in a fairly permanent form such as in fixed assets, plant and equipment, or are used in other ways which are not recoverable in the short run unless the entire business is sold.

Capital Equipment: Equipment used to manufacture a product, provide a service, or to sell, store, and deliver merchandise. Such equipment will not be sold in the normal course of business, but will be used and worn out or be consumed over time as business is conducted.

Cash Flow: The actual movement of cash within a business: cash inflow minus cash outflow. A term used to designate the reported net income of a corporation plus amounts charged off for depreciation, depletion, amortization, and extraordinary charges to reserves, which are bookkeeping deductions and not actually paid out in cash. Used to offer a better indication of the ability of a firm to meet its own obligations and to pay dividends, rather than the conventional net income figure.

Cash Position: See Liquidity.

Collateral: An asset pledged to a lender in order to support the loan.

Current Assets: Cash or other items that will normally be turned into cash within one year, and assets that will be used up in the operations of a firm within one year.

Current Liabilities: Amounts owed that will ordinarily be paid by a firm within one year. Such items include accounts payable, wages payable, taxes payable, the current portion of a long-term debt, and interest and dividends payable.

Current Ratio: A ratio of a firm's current assets to its current liabilities. Because a current ratio includes the value of inventories which have not yet been sold, it does not offer the best evaluation of the firm's current status. The "acid test" ratio, covering the most liquid of current assets, produces a better evaluation.

Debt: Debt refers to borrowed funds, whether from your own coffers or from other individuals, banks or institutions. It is generally secured with a note, which in turn may be secured by a lien against property or other assets. Ordinarily, the note states repayment and interest provisions, which vary greatly in both amount and duration, depending upon the purpose, source and terms of the loan. Some debt is convertible, that is, it may be changed into direct ownership of a portion of a business under certain stated conditions.

Equity: Equity is the owner's investment in the business. Unlike capital, equity is what remains after the liabilities of the company are subtracted from the assets—thus it may be greater than or less than the capital invested in the business. Equity investment carries with it a share of ownership and usually a share in profits, as well as some say in how the business is managed.

Gross Profit: Net sales (sales minus returned merchandise, discounts, or other allowances) minus the cost of goods sold.

Guaranty: A pledge by a third party to repay a loan in the event that the borrower cannot.

Income Statement: A statement of income and expenses for a given period of time.

Inventory: The materials owned and held by a business firm, including new materials, intermediate products and parts, work-in-process and finished goods, intended either for internal consumption or for sale.

Liquidity: A term used to describe the solvency of a business, and which has special reference to the degree of readiness in which assets can be converted into cash without a loss. Also called **Cash Position**. If a firm's current assets cannot be converted into cash to meet current liabilities, the firm is said to be **Illiquid**.

Loan Agreement: A document which states what a business can or cannot do as long as it owes money to (usually) a bank. A loan agreement may place restrictions on the owner's salary, or dividends, on amount of other debt, on working capital limits, on sales, or on the number of additional personnel.

Loans: Debt money for private business is usually in the form of bank loans, which, in a sense, are personal because a private business can be harder to evaluate in terms of credit-worthiness and degree of risk. A secured loan is a loan which is backed up by a claim against some asset or assets of a business. An unsecured loan is backed by the faith the bank has in the borrower's ability to pay back the money.

Long-Term Liabilities: These are liabilities (expenses) which will not mature within the next year.

Net Worth: The owner's equity in a given business represented by the excess of the total assets over the total amounts owed to outside creditors (total liabilities) at a given moment in time. Also, the net worth of an individual as determined by deducting the amount of all his or her personal liabilities from the total value of his personal assets. Generally refers to tangible net worth, i.e. does not include goodwill, etc.

Note: The basic business loan, a note represents a loan which will be repaid, or substantially reduced 30, 60, or 90 days later at a stated interest rate. These are short-term, and unless they are made under a line of credit, a separate loan application is needed for each loan and each renewal.

Partnership: A legal relationship created by the voluntary association of two or more persons to carry on as co-owners of a business for profit; a type of business organization in which two or more persons agree on the amount of their contributions (capital and effort) and on the distribution of profits, if any.

Pro Forma: A projection or an estimate of what may result in the future from actions in the present. A pro forma financial statement is one that shows how the actual operations of a business will turn out if certain assumptions are realized.

Profit: The excess of the selling price over all costs and expenses incurred in making a sale. Also, the reward to the entrepreneur for the risks assumed by him or her in the establishment, operations, and management of a given enterprise or undertaking.

Sole Proprietorship or Proprietorship: A type of business organization in which one individual owns the business. Legally, the owner *is* the business and personal assets are typically exposed to liabilities of the business.

Sub-Chapter S Corporation or Tax Option Corporation: A corporation which has elected under Sub-Chapter S of the IRS Tax Code (by unanimous consent of its shareholders) not to pay any corporate tax on its income and, instead, to have the shareholders pay taxes on it, even though it is not distributed. Shareholders of a tax option corporation are also entitled to deduct, on the individual returns, their shares of any net operating loss sustained by the corporation, subject to limitations in the tax code. In many respects, Sub-Chapter S permits a corporation to behave for tax purposes as a proprietorship or partnership.

Take-Over: The acquisition of one company by another company.

Target Market: The *specific* individuals, distinguished by socio-economic, demographic, and/or interest characteristics, who are the most likely potential customers for the goods and/or services of a business.

Term Loans: Either secured or unsecured, usually for periods of more than a year to as many as 10. Term loans are paid off like a mortgage: so many dollars per month for so many years. The most common uses of term loans are for equipment and other fixed asset purposes, for working capital, and for real estate.

Working Capital: The difference between current assets and current liabilities. Contrasted with capital, a permanent use of funds, working capital cycles through your business in a variety of forms: inventories, accounts and notes receivable, and cash and securities.

Appendix Five:

Worksheets

These blank forms and worksheets are for you to fill out and use. Please feel free to reproduce them for your personal use. Additional copies may be ordered from Upstart Publishing Company, Inc. for a small fee by calling 1-800-235-8866.

Personal Data Sheet

Name _____ Date of birth _____

Address _____

Telephone number _____ Years there _____

Marital Status _____ Name of spouse _____ Dependents _____

Education

	Name and address	Grade completed/ diplomas/degrees obtained
High school		
Other		

Military service _____ Years _____

Highest rank obtained _____

Relevant training or work experience _____

Work Experience

Business and address	Job title and duties	Supervisor	Dates

Trade, professional or civic membership and activities _____

Hobbies, interests, other relevant information _____

Use another sheet if necessary.

Personal Data Sheet

Name _____ Date of birth _____

Address _____

Telephone number _____ Years there _____

Marital Status _____ Name of spouse _____ Dependents _____

Education	Name and address	Grade completed/ diplomas/degrees obtained
High school		
Other		

Military service _____ Years _____

Highest rank obtained _____

Relevant training or work experience _____

Work Experience			
Business and address	Job title and duties	Supervisor	Dates

Trade, professional or civic membership and activities _____

Hobbies, interests, other relevant information _____

Use another sheet if necessary.

Credit Inquiry

Name _____ Date of birth _____

Address _____

Telephone number _____ Years there _____

Former address _____

Years there _____ Marital Status _____ Name of spouse _____

No. of dependents (inc. spouse) _____

Employer _____ Years there _____

Address _____

Phone _____ Kind of business _____

Position _____ Net income \$/ _____

Former employer and address _____ Years there _____

Spouse's employer and address _____

Net income \$/ _____ Other income sources—\$/month _____

Account	Bank	Acct. No.	Balance
Checking			
Savings			

Auto owned (year and make) _____ Purchased from _____ \$ _____

Financed by _____ Balance owed \$ _____ Monthly _____

Rent or mortgage payment/mo. \$ _____ Paid to _____

Real estate owned in name of _____ Purchase price _____ Mtge bal. _____

Credit references and all debts owing—other than above
(Bank, loan or finance cos., credit unions, budget)

Name	Address	Orig. Amt.	Bal.	Mo. payment
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____

Life insurance amount _____ Company _____

If co-maker for others, state where and for whom _____

Nearest relative or friend not living with you/relationship _____

Address _____

Credit Inquiry

Name _____ Date of birth _____

Address _____

Telephone number _____ Years there _____

Former address _____

Years there _____ Marital Status _____ Name of spouse _____

No. of dependents (inc. spouse) _____

Employer _____ Years there _____

Address _____

Phone _____ Kind of business _____

Position _____ Net income \$/ _____

Former employer and address _____ Years there _____

Spouse's employer and address _____

Net income \$/ _____ Other income sources—\$/month _____

Account	Bank	Acct. No.	Balance
Checking			
Savings			

Auto owned (year and make) _____ Purchased from _____ \$ _____

Financed by _____ Balance owed \$ _____ Monthly _____

Rent or mortgage payment/mo. \$ _____ Paid to _____

Real estate owned in name of _____ Purchase price _____ Mtge bal. _____

Credit references and all debts owing—other than above
(Bank, loan or finance cos., credit unions, budget)

Name	Address	Orig. Amt.	Bal.	Mo. payment

Life insurance amount _____ Company _____

If co-maker for others, state where and for whom _____

Nearest relative or friend not living with you/relationship _____

Address _____

Cost of Living Budget

(based on average month—does not cover purchase of any new items except emergency replacements)

Detailed Budget

Regular Monthly Payments

House payments (principal, interest, taxes, insurance) or rent	\$	
Car payments (including insurance)	\$	
Appliance, TV payments	\$	
Home improvement loan payments	\$	
Personal loan, credit card payments	\$	
Health plan payments.....	\$	
Life insurance premiums	\$	
Other insurance premiums	\$	
Savings/investments	\$	
Total	\$	

Household operating expense

Telephone	\$	
Gas and electricity	\$	
Water	\$	
Other household expenses, repairs, maintenance	\$	
Total	\$	

Cost of Living Budget

Personal Expense

Clothing, cleaning, laundry	\$	
Prescription medications	\$	
Physicians, dentists	\$	
Education	\$	
Dues	\$	
Gifts and contributions	\$	
Travel	\$	
Newspapers, magazines, books	\$	
Auto upkeep and gas	\$	
Spending money and allowances	\$	
Miscellaneous	\$	
Total	\$	

Food expense

Food—at home	\$	
Food—away from home	\$	
Total	\$	

Tax expense

Federal and state income taxes	\$	
Other taxes not included above	\$	
Total	\$	

Budget Summary

A. Income gross

Monthly total

Less expense:

Regular montly payments	\$	
Household operating expense	\$	
Personal expense	\$	
Food expense	\$	
Tax expense	\$	
Monthly total	\$	

B. Monthly total expenses

Savings (A-B)

Cost of Living Budget

(based on average month—does not cover purchase of any new items except emergency replacements)

Detailed Budget

Regular Monthly Payments

House payments (principal, interest, taxes, insurance) or rent	\$	
Car payments (including insurance)	\$	
Appliance, TV payments	\$	
Home improvement loan payments	\$	
Personal loan, credit card payments	\$	
Health plan payments.....	\$	
Life insurance premiums	\$	
Other insurance premiums	\$	
Savings/investments	\$	
Total	\$	

Household operating expense

Telephone	\$	
Gas and electricity	\$	
Water	\$	
Other household expenses, repairs, maintenance	\$	
Total	\$	

Cost of Living Budget

Personal Expense

Clothing, cleaning, laundry	\$	
Prescription medications	\$	
Physicians, dentists	\$	
Education	\$	
Dues	\$	
Gifts and contributions	\$	
Travel	\$	
Newspapers, magazines, books	\$	
Auto upkeep and gas	\$	
Spending money and allowances	\$	
Miscellaneous	\$	
Total	\$	

Food expense

Food—at home	\$	
Food—away from home	\$	
Total	\$	

Tax expense

Federal and state income taxes	\$	
Other taxes not included above	\$	
Total	\$	

Budget Summary

A. Income gross

Monthly total	\$	
Less expense:		
Regular montly payments	\$	
Household operating expense	\$	
Personal expense	\$	
Food expense	\$	
Tax expense	\$	
Monthly total	\$	

B. Monthly total expenses

Savings (A-B)

Appendix Six:
Order Forms

Order Form

I'd like to order the following *Profit Improvement Guides*.
(Please indicate how many you'd like.)

- ___ *Market Planning Guide*—to build profitable sales. \$24.95
- ___ *Business Planning Guide*—to shape and build your business. \$16.95
- ___ *Personnel Planning Guide*—to motivate your employees. \$16.95
- ___ *Cash Flow Control Guide*—to improve your profits. \$8.95

Please add \$2.00 shipping and handling.

Your Name _____
Company _____
Street Address _____
City _____ State _____ Zip _____
Phone Number _____

- ☐ My check or money order for \$_____ is enclosed.
- ☐ Please charge \$_____ to my MasterCard ☐ Visa ☐
Card Number _____
Date of Expiration _____
Your Signature _____

**Get a 10% discount when you order
three different books at once!**

**To expedite a credit card order, call
Upstart Publishing Company, Inc.**

toll-free at

800-235-8866

outside New Hampshire; in state, call 749-5071.

Upstart Publishing Company, Inc.
P.O. Box 323 • Portsmouth, NH 03801
12 Portland Street • Dover, NH 03820

Order Form

I'd like to order the following *Profit Improvement Guides*.
(Please indicate how many you'd like.)

- ___ *Market Planning Guide*—to build profitable sales. \$24.95
- ___ *Business Planning Guide*—to shape and build your business. \$16.95
- ___ *Personnel Planning Guide*—to motivate your employees. \$16.95
- ___ *Cash Flow Control Guide*—to improve your profits. \$8.95

Please add \$2.00 shipping and handling.

Your Name _____
Company _____
Street Address _____
City _____ State _____ Zip _____
Phone Number _____

- ☐ My check or money order for \$_____ is enclosed.
- ☐ Please charge \$_____ to my MasterCard ☐ Visa ☐
- Card Number _____
- Date of Expiration _____
- Your Signature _____

**Get a 10% discount when you order
three different books at once!**

**To expedite a credit card order, call
Upstart Publishing Company, Inc.**

toll-free at

800-235-8866

outside New Hampshire; in state, call 749-5071.

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Index

- Accountant; and small business, 43-44; and taxes, 88
- Acquisition. *See* Takeover
- Advisors, Outside; use of, 31
- Applications of Funds Statement, 81
- Balance Sheet, 50-54; analysis of, 53-54
- Bank. *See also* Banker; as credit source, 92; forms of loans, 94
- Banker; role in small business, 31; and financing proposal, 92; and the 3 C's of credit, 93
- Board of Directors, 31
- Bookkeeping; basic needs, 43
- Breakeven Analysis, 53-58
- Budgets; cash flow budget, 72, 75; to control operating expense, 69
- Business, Form of; legal, for taxes, 18
- Business, Model of; cash flow, 44-45; financial statements, 89
- Business Plan; and bankers, viii; and budgets, vii; and financing proposal, vii, 1, 5, *See also* Financing Proposal; importance of (reasons for), vii, ix, 1 91; outline of, 2
- Capital; estimating needs, 7, 36-39
- Capital Equipment List, 48-49
- Cash Flow; and Application of Funds Statement, 81; and capital needs, 39; and computers, 73; and financing 72-73, 81; models effects of loan, 72; most important single tool, 72; sketch of sources, 74; timing and--, 72
- Cash Flow Budget, 72, 75; and deviation analysis, 82-83
- Cash Flow Projections, 72-81
- Competition, Description of, 25-27; and strategies, 26; and analysis, 25-26
- Corporate checklist, 109-111
- Credit, Brief Note on, 21-22; and collection, 72; and sales, cash flow, 72
- Deviation Analysis, 82-87; and P&L, 84-85; and Cash Flow, 86-87
- Failure Factors in Small Business, 28
- Financial Statements; *See also* Balance Sheet, P&L, Cash Flow, Budgets, Forecasts. Applications of Funds, Capital Equipment List; and control, 44; as model of business, 44-45, 89; cash flow the most important, 45; overview of--, 44-46, 89
- Financing, Brief Note on, 7; proposal, 91-96
- Forecasts; cash flow, 62; expenses, 59; P&L, 59-60; sales, 62
- Job Descriptions; management, 30
- Loans *See also* Credit; bank financing (varieties of), 94; debt vs. equity, 92; how to determine the need for, 36-39; types of, 7
- Liquidity; and cash flow, 44-45, 72-73
- Location, 23-24
- Management; duties, 30; key to success, 28-32; salaries, 30
- Marketing: Market, Location, Competition, 18-27; as top priority of business, 43; --plan/strategy, 14; "reasons to buy," 19-20
- Partnership Agreement, Sample, 105-108
- Policy; of business, 9; and controls, 43
- Pricing, Brief Note on, 21-22
- Product/Service, 16-17; and benefits, 16-17; reasons to buy, 16
- Profit and Loss (P&L) Projections, 59-71; as budget, 59; role in financing decisions, 59
- Ratio Analysis; and balance sheet, 53-54
- Salaries; management, 31
- Sales Forecasts; *See* Forecasts, Sales
- Startups, 11-12
- Takeover; and description of business, 12-14; as turnaround situation, 13
- Target Market, 18
- Venture Capital in Small Business, 91

